ROYAL BANK
OF CANADA

1994 Annual Report

Part Two — Financial Review

Includes Annual Information Form dated December 6, 1994

About this report

There are two parts to our Annual Report. This part, "Financial Review", presents the bank's audited financial statements and a comprehensive analysis of the financial results.

Part One, "Business Review", discusses the progress of the bank's major businesses during the year.

Copies of either Part One or Part Two of the Annual Report are available from:

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Canada H3C 3A9
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INCORPORATION AND ORGANIZATION

Royal Bank of Canada is a Schedule I bank under the Bank Act, and the Act is its charter.

The head office is located at Royal Bank of Canada Building, 1 Place Ville Marie, Montreal, Quebec, Canada.

BUSINESS AND PROPERTY

Royal Bank of Canada and its subsidiaries (the "bank") is Canada's largest financial services institution in terms of assets, stock market capitalization and market share of loans, mortgages and deposits. Internationally, the bank ranks among the 50 largest banks in the world in terms of assets and serves selected markets in the United States, Europe, Asia, Latin America and the Caribbean.

The bank, including its subsidiaries such as RBC Dominion Securities, Royal Trust and Voyageur Insurance Company, provides a diverse array of financial products and services to individuals, businesses, governments and financial institutions.

DOMESTIC OPERATIONS

In Canada, the bank provides a full range of banking products and services to more than 9.5 million consumer clients and 350,000 business clients. These services are delivered via one of the largest banking networks in the world which includes nearly 1,600 branches and other units and over 3,900 automated banking machines. In addition, the Royal Direct telephone banking service is due for nation-wide rollout in 1995. Following is a brief discussion of the products and services the bank offers to its individual as well as to its business, government and financial institution clients.

PRODUCTS AND SERVICES FOR INDIVIDUALS

The bank offers a broad range of products and services designed to meet the needs of individual consumers. The local branch is the anchor of the retail delivery system but self-service banking through automated banking machines now represents 70% of all routine consumer transactions.

• *Deposit services*

Deposit services include savings accounts and chequing accounts which can be accessed through the bank's extensive network of cash counters and automated banking machines, as well as term deposits.

• *Mutual funds*

Individual clients also have access to an extensive array of no-load mutual funds, comprising 12 RoyFunds and 20 Royal Trust funds. These funds range from money market and T-bill funds to specialized international equity funds.

• *Credit products*

On the credit side, products include residential mortgages, consumer instalment and other personal loans. Increasingly, some personal loans are available through delivery channels other than the branch and banking machine network. For instance, in 1994, close to one-third of all new mortgages was generated by a commissioned sales force of 183 mortgage representatives, while the bank made more than one-quarter of car loans directly through car dealers.

Card services include the Royal Bank Visa Classic and Visa Gold credit cards, Royal Trust Canadian Plus Visa card and Royal Trust Visa Gold card, as well as the debit card. In 1994, 4.7 million clients were carrying credit cards of Royal Bank and Royal Trust, while approximately 20,000 merchants were members of the bank's debit card program.

The bank enjoys the largest market share of Government Guaranteed Student Loans among all financial institutions. Delivery of the program is through all branches across Canada.

• *Brokerage services*

Full service brokerage activities are provided by 73%-owned RBC Dominion Securities, which has 158 sales offices across Canada and a team of nearly 900 investment advisors in Canada. Discount brokerage services are delivered through a separate discount brokerage operation, Action Direct.

• *Insurance products*

Insurance products comprise creditor life and disability insurance associated with mortgage and personal loans as well as medical and travel-related insurance for Canadians travelling abroad. These products are available through the bank's branch network and, in the case of the medical and travel insurance products, also through approximately 3,400 travel agencies across Canada which distribute the products of the bank-owned Voyageur Insurance Company.

• *Wealth management, custody and transfer*

Clients of the bank are also offered investment management, securities custody, trust and estate planning services through 100 Royal Trust branches in Canada. The bank has approximately $11.5 billion of personal assets under management.

PRODUCTS AND SERVICES FOR BUSINESSES, GOVERNMENTS AND FINANCIAL INSTITUTIONS

The bank provides financial services to small and mid-sized businesses, corporations, governments and other financial institutions.

• *Loans, deposits and electronic banking services*

Included in these services are lending, syndication and asset sale capabilities, deposit account instruments, and information and operating products which include electronic banking, payroll processing and pre-authorized payments.

Cash management services enable clients to obtain account balance and transaction information, to transfer funds between accounts, to initiate payments on a worldwide basis and to receive current money market and foreign exchange rate information.

Clients also have access to corporate finance services, a financial program for both franchisors and franchisees, moveable equipment lease financing and venture capital financing.

• *Treasury products*

The bank provides its business, government and financial institution clients with rate risk management, foreign exchange, money market and precious metal products to allow customers to meet their needs for liquidity, foreign exchange and interest rate protection. These products are delivered through a network of five treasury units in Canada, major trading rooms located in Toronto, London and Singapore, and additional delivery units located in New York and Tokyo as well as other centres.

• *Investment banking services*

Corporations, governments and institutional clients are offered a full range of fixed income, equity, investment banking and advisory services through RBC Dominion Securities.

• *Investment management and custody services*

Institutional clients are also provided investment and asset management and securities custody services, primarily through Royal Trust. Institutional assets under management total approximately $15 billion, while institutional securities under custody amount to $275 billion.

INTERNATIONAL OPERATIONS

Outside Canada, the bank delivers corporate banking, correspondent banking, treasury, investment banking and private banking services through 97 business units in 32 countries. It also maintains correspondent relationships with 3,500 of the world's leading banks in 180 countries. In addition, the bank operates a well-established consumer banking franchise in the Caribbean.

United States operations include a branch in New York, an agency in Miami and representative offices in Chicago and Los Angeles. Investment banking is conducted by RBC Dominion Securities in New York.

In Latin America, the bank maintains a representative office in Argentina, Brazil, Venezuela and Mexico. These offices, with the exception of Mexico, also serve private banking clients. In addition, the bank has a private banking centre in Uruguay. In the Caribbean, the bank has an extensive network of retail branches focusing on consumer banking, including private banking services.

The bank's operations in Europe and Asia are headquartered in London and Singapore respectively. Investment banking services are provided by branches of RBC Dominion Securities in London and Tokyo.

The bank's European network includes branches in London and Madrid and subsidiaries in London, Paris, Frankfurt, Geneva, Vienna, Amsterdam, Guernsey, Jersey and the Isle of Man. The bank also has a branch in Dubai.

In Asia, there are branches in Tokyo, Hong Kong, Singapore, Seoul, Taipei, Kaohsiung and Shanghai; subsidiaries in Hong Kong and Singapore; and representative offices in Beijing and Sydney.

Services to exporters and importers are available through the bank's six international trade centres located in major cities across Canada, while offshore trade services are delivered through international banking offices, agencies and branches around the world.

PROPERTY

At October 31, 1994, the bank owned premises occupied by 541 branches and offices and leased premises occupied by 1,034 branches and offices. The bank also owns eight central processing centres across Canada and major office complexes in Toronto and Ottawa. At October 31, 1994, the net book value of land and buildings worldwide totalled $955 million or .6% of total assets.

GENERAL DEVELOPMENT OF THE BUSINESS

Financial sector reform in 1987 gave banks the right to own investment dealer subsidiaries and began a process of consolidation in the Canadian financial services industry. This process continued in 1992 when further legislation permitted banks to acquire trust and insurance companies.

Royal Bank quickly seized the opportunity to enter these new businesses and to offer a wider range of services to its large base of individual and business clients. In 1988, the bank gained entry into the investment banking and full-service brokerage business through the acquisition of Canada's largest brokerage firm, Dominion Securities. RBC Dominion Securities strengthened its base in Western Canada and Quebec through the acquisition of Pemberton Securities in 1989 and the purchase of McNeil Mantha Inc. in 1991.

In early fiscal 1993, the bank acquired Voyageur Travel Insurance Limited, Canada's largest supplier of travel insurance to the retail insurance market. Later in 1993, the bank purchased the principal Canadian operating subsidiaries and certain international units of Royal Trustco Limited. This latter acquisition significantly increased the bank's capabilities in institutional trust and securities custody, investment management and mutual funds, while also allowing the bank to enter the personal trust business.

As a result, in a short number of years, through legislation and acquisition, the bank transformed itself from Canada's largest lending and deposit-taking institution into a provider of integrated financial services. The changes have had a profound effect on the bank's assets under administration and management, and its revenue streams.

For example, at year-end 1994, institutional and personal assets under administration in the securities custody business totalled $333 billion, up significantly from five years ago. In its investment management activities, the bank's assets under management, excluding mutual fund assets, amounted to $26 billion this year, compared to $3 billion in 1989. Mutual fund assets rose from $1.2 billion in 1989 to $12.9 billion in 1994, making Royal Bank the second largest mutual fund provider in Canada. In the same period, the bank's market share of mutual funds in Canada grew from 3% to 10%.

Accordingly, investment management and custodial fees more than quadrupled between the end of 1989 and 1994, while mutual fund fees grew thirteen-fold in that period – to approximately $250 million and $200 million respectively. Capital market fees, generated largely by RBC Dominion Securities, doubled in that time. Revenues from insurance-related products have more than tripled since 1989. Given the increasing contribution of non-intermediary businesses, other income has grown to represent a much higher proportion of the bank's revenue. In 1994, 36% of the bank's revenue was derived from other income, versus 29% in 1989.

Through rapid development of its banking machine network, strategic realignment of its branch network and focused marketing efforts, the bank has grown its consumer lending and deposit business rapidly in the past five years. The number of banking machines has risen approximately 70% since 1989. In that time, consumer deposits have increased to 63% of total deposits from 60%. In 1994, the bank had the highest ratio of consumer deposits to total deposits of the six large Canadian banks.

Also in the last five years, residential mortgages have risen to 38% of total loans from 27%. This trend, which has been accentuated by the acquisition of Royal Trust, is favourable due to the low level of losses historically experienced on these loans and because the bank views home mortgages as its most important product in building a long-term relationship with a personal client. Total consumer loans have increased to 55% of total loans from 46% in 1989.

The bank's market share among all financial institutions in Canada is approximately 15% for residential mortgages, 17% for consumer deposits and 17% for consumer loans. The acquisition of Royal Trust has contributed to an increase in the bank's market share. Internationally, while the bank has exited most retail banking markets, except in the Caribbean, and reduced its net exposure to less developed countries, there has been steady growth in the bank's corporate, correspondent banking and treasury services.

In the past five years, business loans have risen at a much slower rate than consumer loans. This is the result of a number of factors, including tighter underwriting standards, a concerted effort to lower exposures to industries such as commercial real estate, and an increased strategic emphasis on fee-based businesses. As well, an economic recession in Canada in 1990-1991 and the accessing of capital markets directly by corporate clients has dampened loan demand.

The provision for credit losses, which rose dramatically in 1992 and 1993, fell in 1994. Excluding the LDC portfolio, losses averaged about .5% of loans and acceptances between 1989 and 1991, 2.0% in 1992 and 1993, but dropped to .7% in 1994. The above-mentioned recession in Canada led to a weakening in domestic commercial real estate markets and contributed to a sharp deterioration in the bank's commercial real estate portfolio in 1992 and 1993. In 1994, the bank's exposure, problem loans and provision for credit losses in this industry declined significantly.

Brady-type restructuring plans for the major LDC countries were implemented between 1990 and 1994. Following a credit loss provision of $1.1 billion on its LDC portfolio in 1989, the bank made cumulative reversals of $650 million between 1991 and 1993, reflecting improvements in recent years in the economies of several Latin American countries.

Total capital funds have risen from $7.9 billion at the end of 1989 to $12.1 billion in 1994, with $3.1 billion of the increase raised externally and $1.1 billion generated internally. The bank's regulatory Tier 1 and Total Capital ratios have risen from 4.8% and 7.2% in 1989 to 6.4% and 9.6% in 1994. The trend among North American banks towards higher levels of capital is largely in response to investor expectations.

COMPETITION

The bank operates in an intensely competitive environment, both in Canada and abroad. In light of financial sector reform, the breadth of the bank's competition has increased to encompass not just banks, but also trust companies, securities brokers, insurance companies, mutual fund providers and investment management firms. In areas such as mutual funds, investment banking and electronic banking, some U.S. players have recently become more active in Canada, leading to heightened competition in the domestic market.

The bank competes with the above-mentioned institutions primarily with respect to products, pricing, geographic markets served, distribution channels employed and quality of services delivered to clients. Market share, profitability measures and client satisfaction are the major yardsticks used to measure the bank's performance against the competition. The bank ranks first or second in market share in almost every type of financial service provided in Canada, except insurance.

Outside Canada, the bank competes with major international commercial, investment and correspondent banks, primarily in the provision of corporate banking, correspondent banking, treasury, investment banking and private banking services.

OTHER ANNUAL INFORMATION FORM MATTERS

Additional items comprising the bank's Annual Information Form are disclosed in portions of this Financial Review, in portions of the bank's Annual Report, Part One ("Business Review") and in the Notice of the Annual Meeting of Common Shareholders and Management Proxy Circular dated December 6, 1994 ("Proxy Circular"). These items are incorporated by reference as set out in the table below.

Summary financial information for the last five fiscal years with respect to income, assets, liabilities and share capital is contained in the "10-Year Financial Statements" appearing on pages 52-54. Additional financial information is provided in the comparative financial statements contained in the Financial Review.

Additional information supplementing the Annual Information Form, including directors' and officers' remuneration and indebtedness, principal holders of securities, options to purchase securities, and interests of insiders in material transactions is contained in the Proxy Circular.

The bank will provide to any person, upon request to the Manager of Investor and Shareholder Relations at the bank's corporate headquarters, a copy of this Annual Information Form and any documents incorporated by reference; a copy of the comparative financial statements for the year ended October 31, 1994 together with the accompanying report of the auditors; a copy of any interim financial statements subsequent to the financial statements for the year ended October 31, 1994; and a copy of any other documents incorporated by reference in a preliminary short form prospectus or short form prospectus if securities of the bank are in the course of a distribution.

Item	Reference
Principal subsidiaries	Page 56
Non-accrual loans	Pages 23-25
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INTRODUCTION

This part of the Annual Report presents a discussion and comparison of Royal Bank of Canada's financial performance for the fiscal years ended October 31, 1994, 1993, and 1992 and provides a general indication of the bank's expectations of future results.

Also included is a review of the bank's activities to manage credit, liquidity, interest rate, foreign exchange and other risks relating to both its balance sheet and off-balance sheet activities.

The bank segments its results by domestic and international operations. Domestic operations include all business transacted in Canada, excluding the Canadian-based activities of the bank's international money market units. International operations include all business transacted outside of Canada, as well as the above-mentioned money market activities.

Revenue and expense numbers for Royal Trust, referred to throughout this discussion, relate to the operations of Royal Trust that were acquired by the bank on September 1, 1993. In 1994, thirteen months of results for Royal Trust were included, for the period October 1, 1993 to October 31, 1994, while in 1993, one month of Royal Trust's numbers was included in the consolidated total.

To assist readers, a glossary of financial terms is provided on pages 57-59.

CANADA'S ECONOMIC PERFORMANCE

Business conditions in Canada improved significantly in 1994. Led by exports and business investment, the economy expanded at a healthy rate with very little inflation and reduced government spending. Employment increased at a robust pace, particularly in the spring and summer, and the unemployment rate declined to 10.0% in October, below the 11.3% level a year ago and the lowest since January 1991. However, household debt levels remained high. This, combined with intense price competition among financial institutions, resulted in lower growth this year in the bank's residential mortgage and other consumer loan portfolios than in 1993.

For 1995, we expect economic growth to continue to be led by business investment and exports. A lower Canadian dollar, the restructuring of Canada's manufacturing sector and the resulting improvement in labour productivity have laid the foundation for solid, export-oriented growth. This has positive implications for the creditworthiness of the bank's clients in export-oriented industries.

Consumer spending is expected to show steady growth next year, albeit somewhat below the rate for the overall economy. A still relatively high level of consumer debt will continue to have a restraining influence on consumer spending in 1995 as the key priority for consumers next year will be debt reduction. This is expected to lead to only a modest pick-up in growth in residential mortgages and other consumer loans in 1995.

The positive economic outlook should be favourable for the bank's various businesses. However, there are some downside risks to the forecast. The most important of these risks is the possibility of higher and more volatile interest rates, arising from a combination of inflationary pressures in the United States and fiscal and political uncertainties in Canada. Should this occur, growth in loans and assets under management could be lower in 1995 than anticipated.

FINANCIAL GOALS AND PERFORMANCE

Net income in 1994 was $1,169 million, compared to $300 million in 1993 and $107 million in 1992. Earnings per common share were $3.19 this year versus $0.46 in 1993 and a net loss of $0.05 in 1992. Progress in achieving the bank's four strategic priorities – improving credit quality, controlling costs, integrating Royal Trust and growing revenues – allowed the bank to return to a level of profitability similar to that achieved in 1991.

A significant factor behind the improved earnings was a $930 million, or more than 50%, reduction in the provision for credit losses and a sharp reduction in net non-accrual loans from the 1993 levels. A full discussion of loan losses and non-accrual loans is provided on pages 23-27.

The absence of restructuring charges, which had been taken in each of the two previous years to streamline the service delivery network and integrate Royal Trust, also had a beneficial impact on this year's results. Non-interest expenses are discussed in detail on pages 13-15.

In its first full year as part of the bank, Royal Trust made a significant contribution to other income, largely due to fees from mutual fund and investment management and custodial activities. Even excluding the acquired operations of Royal Trust, the rate of growth in other income increased to 10% in 1994 from 7% in 1993, leading to a favourable impact on earnings.

The bank's 73%-owned investment banking subsidiary, RBC Dominion Securities, had another record year in 1994, earning $133 million. This performance compared to the previous record income of $100 million in 1993 and $73 million in 1992. It is unlikely that this year's performance will be repeated in 1995.

The improved results in 1994 enabled the bank to achieve its medium-term (3-5 year) performance goal for return on common shareholders' equity and to make significant progress against many others. These goals, which are shown in Table 1, are set using various criteria including expected economic and market conditions, investors' perceptions of Royal Bank's risk profile, rates of return earned in financial services and other industries, the bank's own previous financial performance and anticipated changes in the bank's business mix.

RETURN ON COMMON SHAREHOLDERS' EQUITY (ROE)

The bank's objective in determining its ROE goal is to provide a return to its shareholders that exceeds long-term "risk-free" rates, as represented by 10-year Government of Canada bond yields, by an amount greater than that offered by similar equity investments. As a result of rising bond yields, the ROE goal was raised to 16% at the end of 1994 from 15% a year earlier.

In 1994, the bank's ROE was 16.8%, 80 basis points above the revised goal of 16% and 880 basis points greater than the average long-term "risk-free" rate in fiscal 1994.

TABLE 1

FINANCIAL GOALS AND PERFORMANCE

	Medium-term goals	Performance 1994	1993	1992	1991	1990
Profitability (1)						
Net interest income – taxable equivalent basis (2)	3.00%	**2.83%**	3.13%	3.05%	3.09%	3.03%
Provision for credit losses (2)	(.40)	**(.49)**	(1.23)	(1.51)	(.47)	(.35)
Other income (2)	1.65	**1.62**	1.47	1.43	1.35	1.36
Non-interest expenses (3)	(2.70)	**(2.81)**	(3.10)	(2.88)	(2.77)	(2.71)
Income taxes and non-controlling interest (2)	(.65)	**(.45)**	(.06)	(.01)	(.44)	(.54)
Return on assets (2)	.90%	**.70%**	.21%	.08%	.76%	.79%
Return on common shareholders' equity	16.0%	**16.8%**	2.4%	(.3)%	15.5%	17.5%
Productivity (4)	58.0%	**63.2%**	61.2%	62.1%	62.4%	61.8%
Dividend payout ratio (5)	30–33%	**36.4%**	–	–	40.0%	38.8%
Capital adequacy (6)						
Common equity to assets	5.0%	**3.7%**	3.4%	4.3%	4.6%	4.2%
Common equity to risk-adjusted assets	6.0%	**5.3%**	4.9%	5.2%	5.4%	4.6%
Tier 1 capital ratio	7.0%	**6.4%**	5.9%	5.9%	6.1%	5.0%
Total capital ratio	10.0%	**9.6%**	9.3%	9.2%	9.4%	7.4%

(1) For the year ended October 31.
(2) As a percentage of average assets.
(3) As a percentage of average assets. Excluding restructuring costs recorded in 1993 and 1992 of $410 million and $130 million respectively, this ratio was 2.81% in 1993 and 2.78% in 1992.
(4) Non-interest expenses as a percentage of gross revenue (taxable equivalent net interest income and other income), excluding restructuring costs recorded in 1992 and 1993.
(5) The ratios for 1992 and 1993 are not meaningful.
(6) As at October 31.

RETURN ON ASSETS (ROA)

At the end of 1994, the bank increased its ROA goal from .85% to .90%. The increase coincided with changes to some of the key performance goals which contribute to ROA and which are discussed later in this section.

The bank recorded a return on assets of .70% in 1994, the best since 1991. The bank's objective within the next 3-5 years is to bridge the 20 basis point gap between this year's performance and its goal through revenue enhancement and productivity improvement.

OTHER PROFITABILITY MEASURES

Net Interest Income: The medium-term goal for the net interest margin remained unchanged at 3.00% in 1994.

The net interest margin recorded in 1994 narrowed to 2.83% from 3.13% in 1993 and 3.05% in 1992. This decline resulted from lower securities gains and reduced income from LDCs and Mexico, and from the inclusion of Royal Trust, whose margins have tended to be lower than the rest of the bank's.

Provision For Credit Losses: The goal for the provision for credit losses of .50% of average loans and acceptances (which is equivalent to about .40% of average assets) also remained unchanged this year.

At .67% of average loans and acceptances and .49% of average assets, the bank's provision for credit losses declined significantly from 1993 and 1992 and approached the level realized in 1991. The bank is striving to attain these goals at the shorter end of the 3-5 year horizon for which these goals have been set.

Other Income: The other income goal was increased at the end of this year to 1.65% of average assets from the previous target of 1.55%, consistent with the bank's intention to expand its fee-based revenues.

Royal Trust's results, combined with record capital market fees generated by RBC Dominion Securities, enabled the bank to achieve a level of 1.62% this year, up from 1.47% in 1993 and 1.43% in 1992.

Productivity: For the second successive year the bank changed its productivity ratio target, this time from 59% to 58%, in line with its strategic priority to be a low cost producer.

To achieve this goal, revenues will need to continue to rise faster than costs. The bank has extensive retail operations, growing global securities services and expanding investment banking and brokerage activities which, by their nature, have high expense-to-revenue ratios despite the ability of these businesses to generate profitable returns. This poses a significant challenge from the standpoint of productivity management that institutions with a different business mix may not face.

The bank's productivity ratio was 63.2% in 1994. Excluding Royal Trust, RBC Dominion Securities and restructuring costs, the productivity ratio was 58.8% compared to 59.6% in 1993. One of management's important objectives in the next few years will be to achieve the aggressive 58% target for the overall bank.

CAPITAL ADEQUACY

Given the changing expectations of stakeholders, which is reflected in rising levels of capital among North American banks, the bank increased its Tier 1 capital goal at year end to 7.0% from 6.5% while maintaining its goals for Total capital and for common equity to assets at 10.0% and 5.0% respectively. A new goal of 6.0% for common equity to risk-adjusted assets was introduced this year.

At year-end 1994, common equity to assets was 3.7% while common equity to risk-adjusted assets was 5.3%. The Tier 1 and Total capital ratios were 6.4% and 9.6% respectively, not far from their respective goals and up from 5.9% and 9.3% respectively in 1993 and from 5.9% and 9.2% in 1992. The bank expects to achieve these goals through internal capital generation.

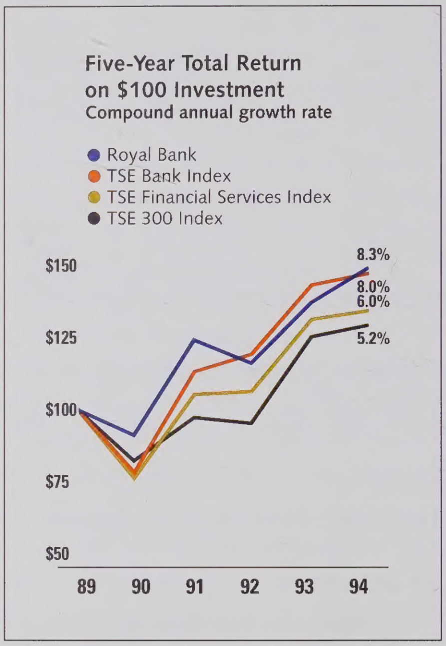
RETURN TO COMMON SHAREHOLDERS

One of the bank's overriding objectives is to provide a superior rate of return to its shareholders. This return can come in the form of capital gains and in the form of dividend income.

The bank ended fiscal 1994 with a common share price of $28.38, up 4.1% from $27.25 on October 31, 1993. Early in the year, the common shares hit a record high of $31.88 but retreated later in the year, together with the rest of the banking sector, due to factors such as higher interest rates, a weak bond market and concerns about Canada's political and fiscal outlook.

Dividends per common share of $1.16, when divided by the average of the high ($31.88) and the low ($25.13) share price in 1994, led to a dividend yield of 4.1% this year. The total return to common shareholders, consisting of the share price appreciation and the dividend yield, was 8.2% in 1994. Although down from 17.5% in 1993, this was the highest return among Canada's six major chartered banks.

As shown in the chart below, a $100 investment in Royal Bank's common shares at the end of 1989 would be worth $149 at October 31, 1994, assuming the quarterly reinvestment of dividends into additional shares. This represents a higher return than that generated from a similar investment in the TSE 300 index, the TSE financial services index and the TSE bank index.



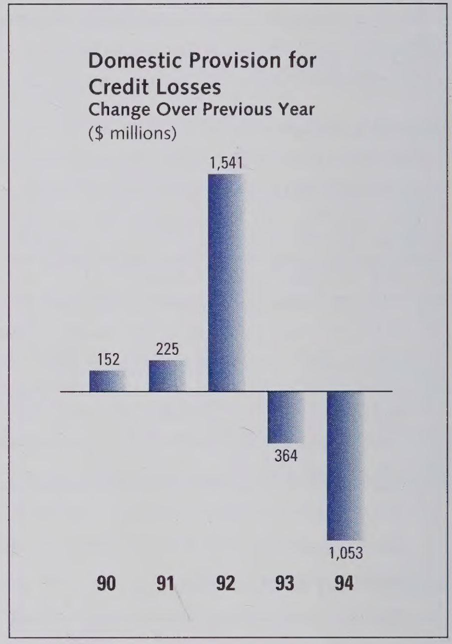
Based on a book value per common share of $20.13 at October 31, 1994, the market price of the bank's common shares amounted to 141% of book value at year end, the highest in the Canadian banking sector.

In 1994, the bank paid out common share dividends of $1.16 per share, unchanged from 1993. Total common share dividends this year amounted to 36% of the bank's earnings available to common shareholders. The bank has a dividend payout ratio goal of 30-33%, to be achieved over the next few years through higher earnings.

DISCUSSION OF EARNINGS

DOMESTIC OPERATIONS

As shown in Table 2 on page 9, net income from domestic operations was $718 million in 1994, following losses of $255 million in 1993 and $288 million in 1992. The most significant reason for this improvement was a reduction in the domestic provision for credit losses of $1.1 billion or 57% this year following a 17% decline in 1993.



Domestic earnings also benefited from strong growth in other income. Domestic other income, excluding Royal Trust, was up 11% compared to 6% in 1993 and 12% in 1992 due to strong revenues from capital market, mutual fund, investment management and card activities.

Tighter cost control also contributed to stronger domestic earnings. For example, domestic non-interest expenses, excluding Royal Trust, RBC Dominion Securities and restructuring costs in prior years, declined by 1% in 1994 after rising 5% in 1993 and 3% in 1992. (RBC Dominion Securities' compensation expenses, which distort year-over-year comparisons, are discussed on page 14.)

HIGHLIGHTS OF DOMESTIC AND INTERNATIONAL EARNINGS

For the year ended October 31
(As a percentage of average assets, taxable equivalent basis)

	1994	1993	1992	1991	1990
Domestic					
Net interest income	**2.97%**	3.23%	3.24%	3.23%	3.27%
Provision for credit losses	**(.58)**	(1.63)	(2.03)	(.64)	(.45)
Other income	**1.61**	1.46	1.42	1.34	1.40
Non-interest expenses	**(3.03)**	(3.45)	(3.08)	(3.02)	(2.94)
Income taxes	**(.40)**	.19	.20	(.35)	(.54)
Non-controlling interest in net income of subsidiaries	**(.03)**	(.03)	(.02)	(.01)	(.01)
Return on assets	**.54%**	(.23)%	(.27)%	.55%	.73%
Net income (loss) *($ millions)*	**$718**	$(255)	$(288)	$567	$701
Average assets *($ millions)*	**$134,100**	$112,800	$108,500	$102,800	$96,200
International					
Net interest income	**2.26%**	2.72%	2.30%	2.55%	2.11%
Provision for credit losses	**(.11)**	.30	.55	.21	.07
Other income	**1.65**	1.51	1.46	1.37	1.20
Non-interest expenses	**(1.91)**	(1.75)	(2.08)	(1.84)	(1.84)
Income taxes	**(.50)**	(.90)	(.79)	(.76)	(.50)
Non-controlling interest in net income of subsidiaries	**(.01)**	(.01)	(.01)	(.01)	(.01)
Return on assets	**1.38%**	1.87%	1.43%	1.52%	1.03%
Net income *($ millions)*	**$451**	$555	$395	$416	$264
Average assets *($ millions)*	**$32,600**	$29,700	$27,700	$27,300	$25,500
Total bank					
Net income *($ millions)*	**$1,169**	$300	$107	$983	$965
Average assets *($ millions)*	**$166,700**	$142,500	$136,200	$130,100	$121,700
Return on assets	**.70%**	.21%	.08%	.76%	.79%

Domestic assets averaged $122.2 billion in 1994, excluding Royal Trust. These were up 9% from 1993, following a 3% increase last year, due to higher liquidity and total consumer loans.

Domestic return on assets of .54% in 1994 approached the level reached in 1991 but fell short of the .73% attained in 1990.

The bank will strive to further improve the performance of its domestic operations through lower credit losses and net non-accrual loans, as well as through improved productivity.

INTERNATIONAL OPERATIONS

International profitability remained strong in 1994, as reflected in a 1.38% return on assets. However, international net income was down $104 million or 19% from 1993, following a 41% increase between 1992 and 1993 due largely to an increase in income from LDCs. There were several reasons for the reduction in international net income this year.

First, income from LDCs and Mexico declined by $92 million this year.

Second, the provision for credit losses was $34 million this year compared to an $89 million recovery in 1993 when $250 million of the country risk provision was reversed.

International Provision for Credit Losses
($ millions)

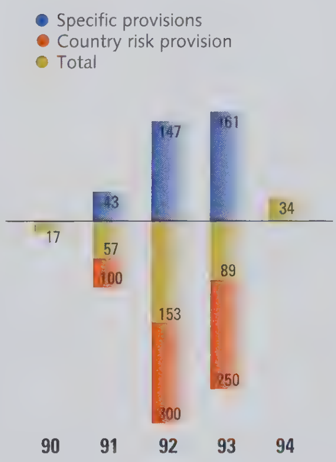


TABLE 3

ANALYSIS OF CHANGES IN NET INTEREST INCOME

For the year ended October 31
($ millions)

	1994 vs 1993			1993 vs 1992		
	Increase (decrease) due to changes in			*Increase (decrease) due to changes in*		
	Average volume(1)	*Average rate(1)*	*Net change*	*Average volume(1)*	*Average rate(1)*	*Net change*
Assets						
Deposits with other banks	$ 127	$ 31	$ 158	$ 37	$ (137)	$(100)
Securities						
Tax exempt	(38)	8	(30)	(3)	(9)	(12)
Other securities	317	–	317	258	(135)	123
Net gains on securities	–	(169)	(169)	–	190	190
Loans						
Domestic						
Residential mortgages	1,001	(425)	576	335	(351)	(16)
Consumer instalment, credit card and other personal loans	157	(31)	126	(18)	(137)	(155)
Business and government loans	83	56	139	(47)	(461)	(508)
International						
Residential mortgages	5	(3)	2	(9)	(10)	(19)
Consumer instalment and other personal loans	8	(2)	6	(31)	(3)	(34)
Business and government loans	21	(91)	(70)	66	(127)	(61)
Total interest income	1,681	(626)	1,055	588	(1,180)	(592)
Liabilities						
Deposits						
Domestic						
Consumers	491	(86)	405	228	(674)	(446)
Businesses and governments	106	(24)	82	78	(164)	(86)
Banks	9	24	33	5	(7)	(2)
International						
Consumers	70	(38)	32	(22)	(40)	(62)
Businesses and governments	42	(8)	34	24	(195)	(171)
Banks	51	(39)	12	(9)	(133)	(142)
Subordinated debentures and other liabilities	191	3	194	90	(72)	18
Total interest expense	960	(168)	792	394	(1,285)	(891)
Net interest income	$ 721	$(458)	$263	$194	$ 105	$ 299
Consisting of:						
Domestic	$647	$(314)	$333	$145	$ (16)	$129
International	74	(144)	(70)	49	121	170
Total	$721	$(458)	$263	$194	$105	$299

(1) Volume/rate variance is allocated based on the percentage relationship of changes in balances and changes in rate to the total net change in net interest income on a taxable equivalent basis.

Third, international non-interest expenses increased 13% over 1993, excluding Royal Trust and last year's restructuring charge of $24 million. On further excluding the impact of a weaker Canadian dollar, non-interest expenses were up 8% from 1993. Efforts to generate a higher percentage of earnings from international operations have entailed, and likely will continue to involve, additional costs although management is committed to controlling these costs to the greatest extent possible.

International assets averaged $30.2 billion in 1994, excluding Royal Trust. This represents an increase of 2% from 1993, attributable to a weakening of the Canadian dollar.

In 1995, the bank may choose to sell some or all of the past-due interest bonds it received from Brazil and the Dominican Republic this year, if prices for these bonds are attractive. These bonds are carried on the balance sheet at nil value and their sale would have a favourable impact on 1995 results.

NET INTEREST INCOME

Net interest income depends largely on the volume of average earning assets such as loans, securities and deposits with other banks, and the difference, or spread, between the rate earned on these assets and the rate paid on interest-bearing liabilities such as deposits and debentures.

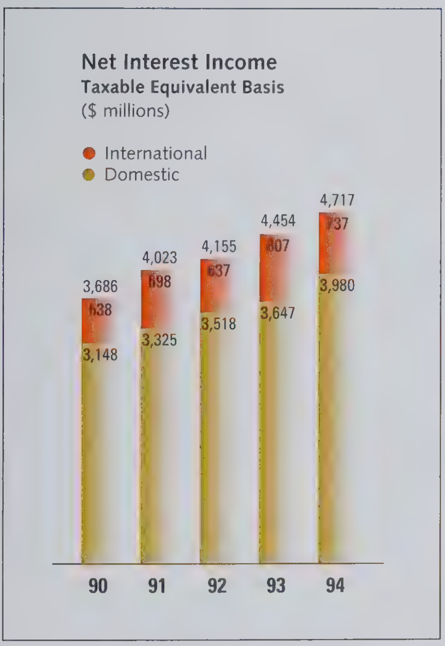
As shown at the bottom of pages 50 and 51, taxable equivalent net interest income was $4,717 million this year, up 6% from last year, following a 7% increase between 1992 and 1993. The net interest margin was 2.83% compared to 3.13% in 1993 and 3.05% in 1992.

TABLE 4

OTHER INCOME

For the year ended October 31
($ millions)

	1994	*1993*	*1992*	*1991*	*1990*
Deposit and payment service charges					
Deposit accounts	$ 482	$ 486	$ 500	$ 467	$ 439
Payroll processing	42	38	36	33	31
Other payment services	137	125	118	101	90
	661	649	654	601	560
Capital market fees	567	456	356	258	264
Card service revenues	303	230	213	210	197
Foreign exchange revenue	279	285	293	268	260
Investment management and custodial fees	255	101	82	69	71
Mutual fund revenues	202	64	37	16	14
Credit fees	156	152	152	162	167
Revenues from insurance-related activities	100	61	32	31	29
Rate risk management revenues	61	51	61	70	33
Loss on disposal of premises and equipment	(5)	(14)	(10)	(4)	(1)
Other	118	62	71	69	61
Total	**$2,697**	$2,097	$1,941	$1,750	$1,655



Excluding the impact of the acquired operations of Royal Trust, which have a net interest margin lower than the rest of the bank's, net interest income was $4,435 million or 2.91% of average assets, compared to $4,426 million or 3.14% a year ago.

As shown at the bottom of Table 3 on page 10, domestic net interest income for the total bank increased by $333 million or 9% in 1994, after rising 4% in 1993. The domestic net interest margin was 2.97% this year compared to 3.23% last year and 3.24% in 1992.

Higher volumes of earning assets, largely securities, residential mortgages and loans to small and mid-sized companies, contributed $647 million to domestic net interest income.

However, rate factors served to decrease domestic net interest income by $314 million in 1994. Largely responsible for this decline were the impact of Royal Trust's narrower spreads, reduced spreads at RBC Dominion Securities due to a lower-yielding asset mix this year, and a significant reduction in domestic securities gains to $162 million from $281 million a year ago as the sharp interest rate declines of 1993 were not repeated in 1994. These negative factors more than offset the benefit of a sharp reduction in non-accrual loans this year.

Royal Trust's contribution to domestic net interest income was $241 million in 1994 and $25 million in 1993. Excluding these amounts, domestic net interest income increased $117 million or 3% this year, unchanged from last year's 3% growth.

Excluding Royal Trust, RBC Dominion Securities and securities gains, the domestic net interest margin was 3.11% in 1994, up from 3.04% in 1993 but down from 3.13% in 1992. The increase from last year reflected wider spreads between the prime rate and core deposit funding rates.

International net interest income declined by $70 million or 9%, following a 27% increase in 1993. Excluding Royal Trust, international net interest income was down $108 million or 13% this year. Income from LDCs and Mexico declined $92 million to $227 million. Although the bank generated $82 million this year from the sale of bonds received in lieu of overdue interest from Argentina, this amount was considerably lower than the $154 million realized from the sale of Brazilian past due interest bonds and Mexican Brady bonds in 1993.

Total securities gains for 1994 were $178 million, down from $347 million a year ago as rising global interest rates this year led to a decline in the market value of the bank's bond portfolio.

The future direction of interest rates will have a strong bearing on net interest income in 1995, since higher interest rates could result in lower securities gains and weaker loan growth than anticipated. In addition, intense competition is expected to put pressure on margins next year. However, continued improvement in loan quality in 1995 should have positive implications for net interest income.

OTHER INCOME

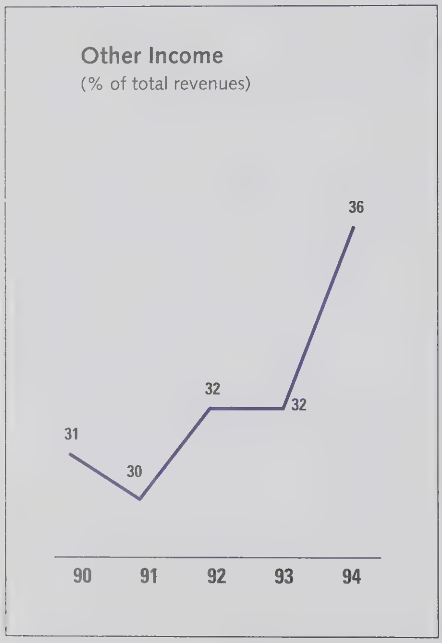
One of the bank's strategic priorities has been to expand its revenues, particularly its fee-based or "other" income. This has resulted in an increase in the percentage of total revenue derived from other income to 36% in 1994 from 32% in both 1993 and 1992.

TABLE 5

ASSETS UNDER ADMINISTRATION AND MANAGEMENT

As at September 30
($ millions)

	1994	*1993*
Institutional trust and securities custody	$274,700	$218,700
Personal trust and securities custody	58,200	43,900
Retail mutual funds	12,900	10,300
Mortgage-backed securities	1,000	1,400
Total assets under administration	$346,800	$274,300
Institutional	$14,700	$11,800
Personal	11,500	11,000
Retail mutual funds	12,900	10,300
Total assets under management	$39,100	$33,100



Other income from the acquired operations of Royal Trust, totalling $415 million in 1994 versus $28 million in 1993, was a major factor behind the higher proportion of fee income in the bank's total revenues this year.

Included in Royal Trust's $415 million of other income were investment management and custodial fees of $156 million ($13 million in 1993), mutual fund revenues of $123 million ($6 million last year), card service revenues of $31 million ($4 million in 1993) and foreign exchange and capital market fees of $20 million and $15 million respectively ($1 million and $2 million last year). The $31 million of card service revenues for Royal Trust exclude $17 million relating to its Mastercards which were converted to Visa in the second half of 1994.

Excluding Royal Trust, other income was up $213 million or 10% in 1994, following increases of 7% in 1993 and 11% in 1992.

Capital market fees accounted for close to half of this year's $213 million increase. These were up sharply for the third successive year – this year by $98 million or 22%, excluding Royal Trust, following increases of 28% and 38% in the two previous years – as demand for RBC Dominion Securities' underwriting, trading and advisory services picked up further in 1994.

Excluding Royal Trust, mutual fund revenues were up $21 million or 36%, following a 57% increase in 1993, reflecting the popularity of mutual funds as an investment vehicle. During 1994, Royfund mutual fund assets averaged $8.2 billion compared to $5.2 billion in 1993 and $4.1 billion in 1992.

Excluding revenues from Royal Trust's Mastercard, card service revenues increased by $29 million or 13%, after rising 6% in 1993. Higher card usage, stemming from stronger economic growth, contributed significantly to this year's increase. In addition, fees from debit cards were $13 million this year versus $6 million in 1993.

Revenues from insurance activities were $39 million or 64% higher in 1994, reflecting the bank's greater focus on its insurance activities. Royal Bank provides creditor life and disability insurance and travel health insurance to its customers.

Investment management and custodial fees, excluding those relating to Royal Trust, were up $11 million or 13% in 1994 after rising 7% in 1993.

Deposit and payment service charges were up $12 million or 2% following a 1% reduction in 1993. Service charges on deposit accounts declined for the second successive year due to the bank's continuing freeze on service prices for both personal and business customers, as well as its 10% discount on all small business current account service fees. However, service charges from banking machines and other payment services increased by 10% after rising 6% in 1993, mainly due to increased transaction volumes through a proprietary banking machine network which is one of the largest in the world. Payroll processing revenues were up 11% this year compared to 6% last year.

Foreign exchange revenues declined by $6 million or 2%, following a 3% reduction in 1993. This year's reduction reflects a lack of liquidity in the North American foreign exchange markets as major currencies have not performed in line with expectations this year.

In addition to contributing to high volumes of fee revenue, Royal Trust has also had an important impact on the composition of other income. For example, Royal Trust's significant mutual fund operations (with assets averaging $4.9 billion in 1994 versus $3.9 billion last year) have led total mutual fund revenues at Royal Bank to rise to 8% of other income, from 3% in 1993. Similarly, Royal Trust's investment management and custodial activities have allowed total fees from these services to rise to 9% of other income, from 5% last year.

TABLE 6

NON-INTEREST EXPENSES

For the year ended October 31
($ millions)

	1994	1993	1992	1991	1990
Human resources					
Compensation	$2,368	$2,034	$1,901	$1,840	$1,697
Benefits	307	276	259	232	192
	2,675	2,310	2,160	2,072	1,889
Occupancy					
Premises rent	247	227	223	206	173
Rental income from properties	(65)	(64)	(68)	(71)	(71)
	182	163	155	135	102
Premises repairs and maintenance	110	101	96	91	83
Depreciation	91	70	64	59	50
Property taxes	55	46	50	47	43
Energy	40	38	35	32	29
	478	418	400	364	307
Equipment					
Depreciation	244	207	203	188	156
Computer rental and maintenance	197	167	152	126	112
Office equipment rental and maintenance	19	22	22	21	19
	460	396	377	335	287
Communications					
Telecommunications	140	120	122	120	117
Postage and courier	128	111	103	102	87
Marketing and public relations	115	87	85	72	75
Stationery and printing	86	74	77	84	88
	469	392	387	378	367
Other					
Business and capital taxes	117	120	136	112	108
Professional fees	113	86	88	74	68
Deposit insurance	100	62	53	50	45
Travel and relocation	71	57	57	63	62
Amortization of goodwill	48	35	19	18	18
Employee training	27	24	25	28	26
Donations	17	14	14	12	10
Other	109	92	72	95	113
	602	490	464	452	450
Non-interest expenses before restructuring costs	4,684	4,006	3,788	3,601	3,300
Restructuring costs (1)	–	410	130	–	–
Total	$4,684	$4,416	$3,918	$3,601	$3,300

(1) The 1992 restructuring costs of $130 million include $12 million of depreciation.

Revenues from Mutual Fund and Investment Management and Custodial Activities
(% of total other income)

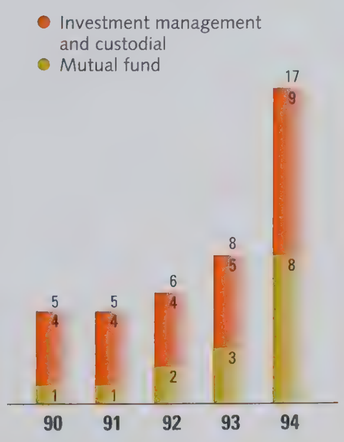


Table 5 on page 12 shows the total assets under administration and management in the bank. Between the end of 1993 and 1994, total assets under management were up $6 billion or 18%, with $2.6 billion attributable to mutual funds and $3.4 billion to institutional and personal assets. Assets under administration in institutional trust and securities custody, as well as in personal trust and securities custody, also showed very strong growth this year.

The bank expects continued growth in fees from these activities in 1995, as well as from most other sources of fee income. However, capital market fees are expected to decline from this year's strong level. The net impact will likely be that other income will not change significantly from the level achieved in 1994.

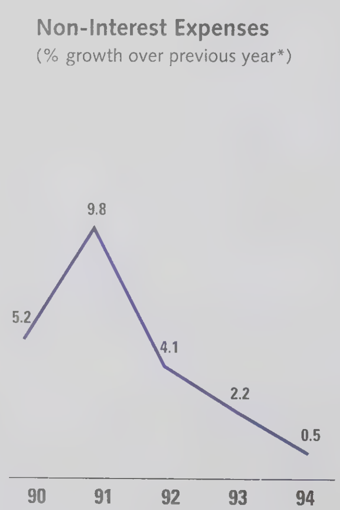
NON-INTEREST EXPENSES

As shown in Table 6, total non-interest expenses in 1994 were $4,684 million versus $4,416 million in 1993, when the bank had recorded $410 million of restructuring costs, and $3,918 million in 1992 when restructuring costs had totalled $130 million. The inclusion of expenses for the acquired operations of Royal Trust added $639 million to the current year's total and $43 million to last year's non-interest expenses.

Included in Royal Trust's expenses this year were $247 million of human resource costs ($20 million in 1993), $150 million of occupancy and equipment costs ($11 million last year), $51 million of communication charges ($3 million in 1993), and $191 million of other expenses ($9 million in 1993).

Excluding last year's restructuring costs and Royal Trust's expenses for 1994 and 1993, non-interest expenses increased by $82 million or 2% compared to $175 million or 5% a year ago.

On further excluding RBC Dominion Securities, whose employees' compensation is closely linked to the firm's revenues and is therefore much more volatile than for the rest of the bank, non-interest expense growth was less than 1% in 1994, compared to just over 2% in 1993.



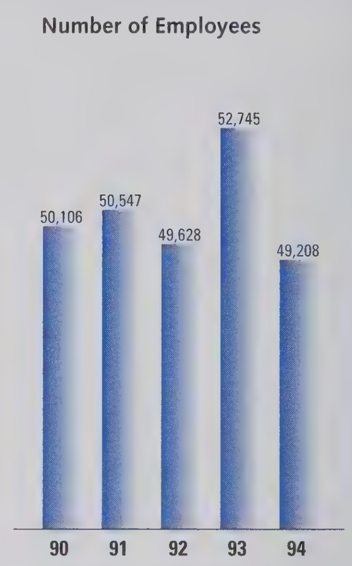
*Excluding Royal Trust, RBC Dominion Securities and restructuring costs

On that same basis, that is excluding Royal Trust, RBC Dominion Securities and restructuring costs, the bank's productivity ratio (non-interest expenses as a percentage of total revenue) improved to 58.8% this year from 59.6% in 1993 and 61.2% in 1992.

Last year's $410 million of restructuring costs had followed a $130 million restructuring charge in 1992. Of the $410 million, $300 million was associated with the planned integration of Royal Trust, which was expected to result in the closure of 41 domestic branches and the elimination of 1,100 positions. The remaining $110 million of restructuring costs were for the continued rationalization of the bank's network, back office, head office and support functions. Reductions of about 60 domestic units and 3,000 positions were expected in the bank itself in 1994.

The targeted branch reductions were achieved at Royal Trust, as 41 domestic branches have been closed. Of these, 34 were merged with local Royal Bank branches and 7 with other Royal Trust branches. Royal Bank reduced its domestic units by 90 this year as additional opportunities for rationalization were identified.

With regard to position eliminations, 3,537 of the anticipated 4,100 reductions occurred in 1994. Higher volumes of business in the global custody area and in investment banking, where demand for RBC Dominion Securities' underwriting, trading and advisory services was stronger than anticipated, required additional staff and contributed to the shortfall. Largely through normal attrition, the bank expects to have approximately 1,000 fewer positions in 1995 from the 49,208 level at October 31, 1994.



Total compensation expenses at the bank increased by 16% during 1994, but only 4% excluding Royal Trust and RBC Dominion Securities.

Benefit costs, excluding Royal Trust, increased by only 3% this year, versus increases of 6% and 12% in 1993 and 1992 respectively. This reflects a reduction in the number of employees and changes made to the bank's health programs at the beginning of the year.

The previously-mentioned closure of domestic branches led to a 4% decline in occupancy costs in 1994, excluding Royal Trust, compared to increases of 3% and 10% in 1993 and 1992 respectively. On the same basis, equipment expenses were unchanged from a year ago after increasing by 4% in 1993 and 13% in 1992.

Communication expenses rose by 7% in 1994, excluding Royal Trust, primarily due to higher telecommunication charges and postage and courier expenses. Other expenses, excluding Royal Trust, declined

TABLE 7

INCOME AND OTHER TAXES

For the year ended October 31
($ millions)

	1994	1993	1992	1991	1990
Income taxes					
Provision for income taxes					
Statement of Income	$ 655	$ (5)	$ (65)	$ 495	$555
Taxable equivalent adjustment	49	61	65	73	92
	704	56	–	568	647
Statement of Retained Earnings (1)	(95)	(90)	(128)	66	(23)
	609	(34)	(128)	634	624
Other taxes					
Business and capital taxes	117	120	136	112	108
Payroll taxes	144	123	121	110	90
Goods and services tax, and sales taxes	130	112	113	102	60
Property taxes	55	46	50	47	43
	446	401	420	371	301
Total	$1,055	$367	$292	$1,005	$925

(1) The income taxes reported in the Statement of Retained Earnings principally relate to unrealized foreign currency translation gains and losses and related hedging activities.

by 15% after increasing by 4% in 1993 and 3% in 1992. Higher deposit insurance premiums, which rose by 34% excluding Royal Trust, were more than offset by lower business and capital taxes and reductions in various other expenses. In addition, the amortization of goodwill was up from last year due to the Royal Trust acquisition.

For 1995, the bank expects little, if any, growth in non-interest expenses. Revenues, and correspondingly expenses, at RBC Dominion Securities are expected to decline from this year's level. The bank will continue to pay close attention to its cost base, with a view to improving its productivity ratio.

INCOME AND OTHER TAXES

Total income and other taxes were $1,055 million, up from $367 million last year due largely to higher earnings in 1994.

As shown in Table 7, the income tax charge was $609 million this year compared to an income tax recovery of $34 million last year.

The Statement of Income shows an income tax charge of $655 million versus a recovery of $5 million in 1993. Note 12 to the financial statements on page 47 explains why the $655 million differs from the income tax charge that would have resulted if the composite federal and provincial statutory income tax rate of 42.4% was applied to the bank's 1994 net income before taxes. The reasons for the difference between the two amounts are lower tax rates applicable to certain subsidiaries and the tax-exempt nature of income from loan substitute securities.

Loan substitute securities comprise income debentures, small business bonds and term preferred shares. As shown in Note 3 to the financial statements on page 42, the bank has a $920 million portfolio of such securities, on which it earns lower income than on loans bearing similar risk, but this income is not taxed. The income foregone on these securities is the taxable equivalent adjustment shown in Table 7. This adjustment would result in income taxes, on a taxable equivalent basis, of $704 million on the Statement of Income this year compared to $56 million in 1993.

Table 7 also indicates that business and capital, payroll, GST and other sales and property taxes comprised $446 million of the bank's total taxes in 1994. Business taxes are levied by municipalities, while capital taxes are imposed on banks by the federal government and all Canadian provinces. Capital tax rates, which are based on common and preferred shareholders' equity, range from 1.1% to 3.2% depending on the province. Following a 12% decline in 1993 due to a reduction in the bank's common equity base, total business and capital taxes were largely unchanged in 1994.

Payroll taxes include the bank's contributions to the Canada and Quebec pension plans, provincial health programs and unemployment insurance. These were up 17% in light of the addition of Royal Trust staff to the bank's payroll.

The goods and services tax, and sales taxes were 16% higher in 1994, while property taxes rose by 20%. Both increases resulted primarily from the inclusion of Royal Trust in the bank's results.

TABLE 8

CONDENSED BALANCE SHEET

As at October 31 ($ millions)	*1994*	*1993*	*1992*	*1991*	*1990*
Assets					
Cash resources	**$ 16,449**	$ 10,874	$ 10,938	$ 8,820	$ 8,763
Securities	**27,695**	24,011	16,146	13,436	9,449
Residential mortgages	**44,086**	43,738	32,607	29,103	25,733
Consumer instalment, credit card and other personal loans	**19,758**	19,508	17,928	17,290	16,826
Business and government loans	**51,542**	53,223	49,602	51,951	50,135
Customers' liability under acceptances	**6,205**	6,302	5,737	7,210	10,369
Other	**7,344**	7,285	5,335	4,542	4,663
	$173,079	$164,941	$138,293	$132,352	$125,938
Liabilities and shareholders' equity					
Consumer deposits	**$ 85,214**	$ 84,696	$ 67,648	$ 64,332	$ 60,577
Deposits from businesses, governments and banks	**50,601**	45,703	44,574	40,690	38,591
Other liabilities and acceptances	**25,198**	23,170	15,438	16,492	18,017
Subordinated debentures	**3,477**	3,442	3,127	3,076	2,299
Shareholders' equity	**8,589**	7,930	7,506	7,762	6,454
	$173,079	$164,941	$138,293	$132,352	$125,938

In addition to these taxes, the bank pays deposit insurance premiums which are levied by the Canada Deposit Insurance Corporation (CDIC). These premiums, shown in Table 6 on page 13, rose by 34% this year excluding Royal Trust, following a 17% increase in 1993. In the middle of fiscal 1994, deposit insurance rates increased to .17% of insurable deposits from .13%, whereas in the middle of 1993 rates had increased to .13% from .10%. The bank had approximately $65 billion of insurable deposits in 1994.

DISCUSSION OF THE BALANCE SHEET

Average assets in 1994 were $166.7 billion, including $14.3 billion for Royal Trust. This compares to $142.5 billion in 1993 when Royal Trust had assets averaging only $1.4 billion as its assets were included for only one month. Excluding Royal Trust, growth in average assets was 8% this year, versus 4% in 1993 and 5% in 1992.

As shown in Table 8, at October 31, 1994, total assets were $173.1 billion, an increase of $8.1 billion or 5% from a year ago. Cash resources, comprising largely deposits with other banks, were up $5.6 billion or 51% from the previous year, reflecting weak loan demand.

Securities increased $3.7 billion or 15% from a year ago. Trading account securities, which are purchased for resale over relatively short periods of time, rose by $2.8 billion or 34%. Most of the securities added to the portfolio were Canadian government fixed income instruments. Investment account securities, which are held for longer periods, increased by $1.3 billion largely due to the addition of Brady bonds and Canadian government securities.

Total loans declined by $1.1 billion or 1% from a year ago. This largely reflects the transfer of Brazilian exposure from loans to securities, and the bank's efforts to pursue fee-based sources of revenue and to reduce concentrations in its corporate loan portfolio.

The build-up of liquidity at financial institutions has led to intense price competition, particularly in lower-risk sectors such as residential mortgages and consumer loans. This served to limit opportunities to add profitable loan business during 1994.

For example, residential mortgages increased by only $348 million or 1% during the year. Interest rates were higher throughout much of 1994, with one-year and five-year mortgages at 8.0% and 9.9% respectively at October 31, 1994, versus 6.5% and 8.8% at year-end 1993. This, combined with continued high household debt levels and intense price competition among financial institutions, restricted the opportunity to add further volumes of profitable mortgages.

The bank's market share of residential mortgages among all financial institutions in Canada was 14.7% versus 15.8% a year ago. A reduction in mortgages at Royal Trust accounted for over 70% of the decline in market share.

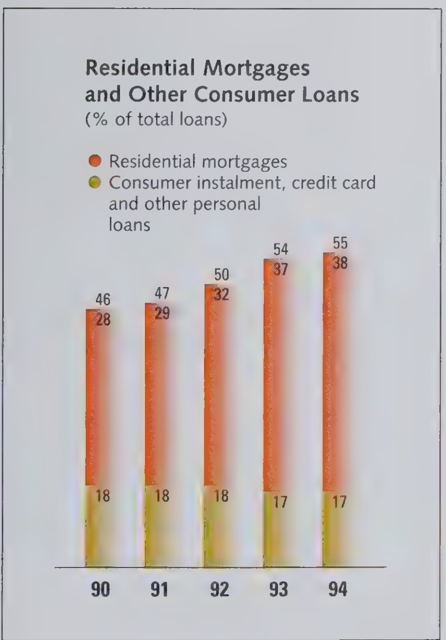
Consumer instalment, credit card and other personal loans were up by $250 million or 1% during 1994, following a 2% increase in 1993 excluding Royal Trust. The bank's market share of these loans among all financial institutions in Canada was 17.0% compared to 18.1% in 1993.

TABLE 9

CONSUMER LOANS AND DEPOSITS
As at October 31
($ millions)

	1994	*1993*	*1992*	*1991*	*1990*
Consumer loans	$ 63,844	$ 63,246	$ 50,535	$46,393	$42,559
Total loans	$115,386	$116,469	$100,137	$98,344	$92,694
Consumer loans as a percentage of total loans	55%	54%	50%	47%	46%
Consumer deposits	$ 85,214	$ 84,696	$ 67,648	$ 64,332	$60,577
Total deposits	$135,815	$130,399	$112,222	$105,022	$99,168
Consumer deposits as a percentage of total deposits	63%	65%	60%	61%	61%

As outlined in Table 9, total consumer loans, which comprise residential mortgages, consumer instalment, credit card and other personal loans, accounted for 55% of total loans. The acquisition of Royal Trust and strong growth in residential mortgages allowed this ratio to rise from 46% in 1990. This development was favourable since the loss ratio on residential mortgages is small.



Another factor contributing to lower asset growth in 1994 was a $1.7 billion or 3% reduction in the business and government loan portfolio, reflecting the bank's strategy to manage down exposures to large corporate borrowers and to industries such as commercial real estate. It also is indicative of growing disintermediation as large companies increasingly turn to capital markets for financing.

Bankers' acceptances declined by $97 million or 2% in 1994 following an increase of 10% in 1993 and a reduction of 20% in 1992. Lower volumes in the international portfolio more than offset a $169 million or 3% increase in bankers' acceptances in Canada, where a wider average spread between these instruments and the prime rate – 160 basis points compared to 111 basis points in 1993 – made them more attractive to borrowers.

On the liability side of the balance sheet, total deposits rose by 4%, following a 1% increase in 1993 excluding Royal Trust. Business, government and bank deposits were up 11% from a year ago, after rising by 3% between 1992 and 1993, reflecting higher liquidity levels at other banks and businesses.

Consumer deposits rose only by $518 million or 1% during 1994, following a 4% increase in 1993 excluding Royal Trust, as consumers focused on debt reduction and sought higher returns through mutual funds and other investments. It should be noted, however, that after declining by $1.5 billion in the first six months of the year, consumer deposits rose by $2.0 billion during the second half of 1994 as rising interest rates made deposit products more attractive. Whether this trend continues in 1995 will depend largely on the direction of interest rates next year.

The small increase in consumer deposits this year, combined with the increase in business, government and bank deposits, caused consumer deposits to decline to 63% of total deposits from 65% a year ago. Despite this decline, the bank continues to have the highest consumer deposit to total deposit ratio in the Canadian banking sector. This is viewed as a significant competitive advantage given that consumer deposits are more stable and less expensive than wholesale funds.

Looking ahead to 1995, the bank expects a modest increase in growth in residential mortgages and other consumer loans. However, business loan volumes will likely remain flat as the bank continues to reduce certain corporate exposures and makes greater use of syndications.

RISK MANAGEMENT

Risk is the potential for loss inherent in a given activity. For a diversified financial institution like Royal Bank, a variety of risks, including credit risk and market risk, exist that must be managed effectively to avoid the impairment of earnings.

Near the end of fiscal 1994, a new risk management structure was created that recognized the growing importance of these different forms of risk. As a result, the bank's approach to risk management has moved from focusing on specific transactions to setting relationship strategies for its clients that encompass all of the client's global business activities.

TABLE 10

EARNING ASSETS BY LOCATION OF ULTIMATE RISK (1)

As at September 30 ($ millions)	*1994*	*1993*	*1992*	*1991*	*1990*	% *1994*	% *1990*
North America							
Canada	$123,567	$118,695	$ 98,662	$ 93,748	$ 85,158	**77.7%**	77.9%
United States	14,301	13,757	11,637	8,666	8,076	**9.0**	7.4
Mexico	741	572	857	606	470	**.5**	.4
	138,609	133,024	111,156	103,020	93,704	**87.2**	85.7
Europe							
United Kingdom	5,896	5,826	4,978	4,857	4,847	**3.7**	4.4
Germany	1,768	1,154	1,130	910	630	**1.1**	.6
France	1,506	1,498	1,249	1,313	1,046	**.9**	1.0
Switzerland	1,191	686	425	766	776	**.8**	.7
Other	2,469	2,526	2,309	2,132	2,084	**1.6**	1.9
	12,830	11,690	10,091	9,978	9,383	**8.1**	8.6
Latin America and Caribbean							
Brazil	1,231	1,234	1,202	1,128	1,328	**.8**	1.2
Bahamas	962	1,025	889	821	799	**.6**	.7
Argentina	442	385	385	394	519	**.3**	.5
Puerto Rico	45	435	861	887	978	**–**	.9
Other	1,519	1,443	1,163	1,076	1,293	**.9**	1.2
	4,199	4,522	4,500	4,306	4,917	**2.6**	4.5
Asia Pacific							
Japan	2,060	1,699	1,910	1,625	1,949	**1.3**	1.8
Other	2,216	1,589	1,279	1,070	1,402	**1.4**	1.2
	4,276	3,288	3,189	2,695	3,351	**2.7**	3.0
Country risk provision	(940)	(1,107)	(1,383)	(1,509)	(2,012)	**(.6)**	(1.8)
Total	$158,974	$151,417	$127,553	$118,490	$109,343	**100.0%**	100.0%

(1) *Earning assets are defined as all assets (including assets funded in local currencies) except Cash and deposits with Bank of Canada, Customers' liability under acceptances, Premises and equipment, and Other assets. Individual countries are indicated where assets exceed ½ of 1% of total earning assets in any of the past five years.*

At the top of this new structure is the Risk Policy Committee of the Board of Directors. This committee reviews major risk management policies and strategies and oversees senior management's activities to control risk.

Chaired by the Chief Executive Officer of the bank, the Group Risk Policy Committee includes the bank's four vice-chairmen and the executive vice-president of Risk Management. Its mandate is to determine the overall risk management policies and strategies for the bank. This committee must also review all risk management policies and strategies relating to countries, sectors, as well as groups of names and single names, that exceed certain size and risk levels. This responsibility is discussed more thoroughly in the discussion on credit risk management that follows.

CREDIT RISK MANAGEMENT

Following a period of economic recession in Canada during 1990 and 1991, the bank experienced unacceptably high levels of non-accrual loans and provisions for credit losses. These were attributed largely to a concentration of exposure to commercial real estate and to high exposures to some individual accounts.

Considerable effort was devoted in 1993 to achieving a better balance of industry concentrations, lowering exposures to weaker borrowers and setting strategies for all accounts over $50 million. The credit approval structure was streamlined, and communication and training improved to ensure proper understanding of, and compliance with, credit risk management policies.

Further initiatives along these lines were undertaken in 1994. This year, credit officers in the field began reporting directly to head office Risk Management in order to achieve greater consistency in lending standards. Previously, these credit officers had reported to their district business heads.

In addition, the bank is revising account managers' compensation programs to link them more directly to credit quality. Quantifiable targets and measurements are being developed for credit quality performance and will be added to the mandates of all account managers during 1995.

TABLE 11

LOANS BY INDUSTRY AND BY LOCATION OF ULTIMATE RISK

As at September 30

($ millions)	*1994*	*1993*	*1992*	*1991*	*1990*	% *1994*	% *1990*
Domestic							
Atlantic provinces	$ 6,092	$ 6,165	$ 6,168	$ 5,317	$ 4,904	5.2%	5.3%
Quebec	12,378	12,801	11,123	10,912	10,608	10.7	11.5
Ontario	44,674	45,545	38,157	37,846	35,716	38.5	38.8
Manitoba	3,049	3,027	2,885	2,931	3,369	2.6	3.7
Saskatchewan	2,638	2,575	2,461	2,509	2,712	2.3	3.0
Alberta	9,116	9,281	7,804	7,294	6,701	7.9	7.3
British Columbia	16,829	16,056	13,605	11,751	10,287	14.5	11.2
	94,776	95,450	82,203	78,560	74,297	81.7	80.8
Consisting of:							
Residential mortgages	43,632	43,244	31,669	28,226	24,800	37.6	27.0
Consumer instalment, credit card and other personal loans	18,512	18,265	17,041	16,451	15,867	16.0	17.3
Financial institutions	7,073	4,922	3,637	3,517	3,571	6.1	3.9
Commercial real estate	4,534	5,468	6,539	7,098	6,292	3.9	6.8
Agriculture	2,984	3,004	2,953	2,939	3,045	2.6	3.3
Forestry and paper products	2,608	3,082	3,560	3,590	2,808	2.2	3.1
Manufacturing	2,248	2,521	2,383	2,629	2,685	1.9	2.9
Commercial mortgages	2,097	2,376	691	337	331	1.8	.4
Retail merchandising	1,912	1,926	2,080	2,223	2,237	1.6	2.4
Wholesale merchandising	1,849	2,031	2,253	2,490	2,507	1.6	2.7
Mining and energy	1,191	1,292	1,464	1,404	1,422	1.0	1.5
Transportation and communication	986	1,278	1,334	1,281	1,266	.9	1.4
Other	5,150	6,041	6,599	6,375	7,466	4.5	8.1
	94,776	95,450	82,203	78,560	74,297	81.7	80.8
International							
North America							
Canadian risk	1,519	1,051	1,339	1,622	1,372	1.3	1.5
United States	9,306	10,284	9,592	7,360	6,696	8.0	7.3
Mexico	655	564	812	597	995	.6	1.1
	11,480	11,899	11,743	9,579	9,063	9.9	9.9
Europe	4,611	5,046	5,313	5,396	5,309	4.0	5.8
Latin America and Caribbean	3,346	3,651	3,979	3,887	3,981	2.9	4.3
Asia Pacific	2,057	1,776	1,489	1,170	1,343	1.8	1.4
Country risk provision*	(297)	(1,038)	(1,376)	(1,509)	(2,012)	(.3)	(2.2)
	21,197	21,334	21,148	18,523	17,684	18.3	19.2
Total	$115,973	$116,784	$103,351	$97,083	$91,981	100.0%	100.0%

**The country risk provision shown has been reduced by $643 million (1993 – $69 million; 1992 – $7 million), which represents the amount deducted from securities in respect of restructured collaterized bonds of less developed countries.*

The new reporting structure has also enabled Risk Management to work more effectively with account managers in formulating strategies for loan portfolios. This is contributing to a streamlined credit approval process and better communication between Risk Management and account managers.

To date, this method of strategic portfolio planning has been focused on the bank's 650 accounts with exposures of over $50 million. Over the next year, this process is expected to result in strategies being established for business clients down to the mid-market, commercial level.

In combination with these efforts, the bank also redesigned its risk assessment framework during the year. In arriving at a risk rating for each business borrower, industry factors are analyzed, as is the company and its management, its financial statements, any environmental considerations, the company's ability to access funds and any emerging trends that warrant consideration. The bank's more than 2,000 business banking account managers have been trained in this new framework.

Management's Group Risk Policy Committee and the Risk Policy Committee of the Board review strategies for clients depending on their size and risk rating. Even the most highly rated accounts are reviewed if they exceed $750 million in size, while average risk accounts are reviewed if they exceed $450 million and problem accounts if they exceed $100 million.

Influencing these individual client strategies are those being developed for industry sectors. This activity has largely been the responsibility of the bank's centralized Industry Portfolio Management and Analysis (IPMA) group. The bank established lending limits for 50 different sectors in 1993, based on analysis done by IPMA. It is now working to develop and maintain strategies for each of these sectors, recognizing their size, performance and future outlook, and the capital of the bank.

Over the past year, the bank also utilized a portfolio management model covering its 500 largest borrowers to ensure that client and industry strategies are consistent and that the bank is being adequately compensated for the risks it is managing.

A risk-adjusted return on capital methodology is being employed to measure returns for individual credits. Risk-weighted capital is allocated to each borrower based on the borrower's risk rating, the term of the loan or facility and the type of banking products being used. Weaker borrowers and longer terms are allocated higher levels of the bank's capital. In cases where the return on capital is inadequate, exposures are being managed down. Clients in this situation are also being encouraged to utilize alternative funding sources such as the capital markets.

As indicated in Table 11 on page 19, no domestic industry sector accounted for more than 6.1% of total net loans. Further, the bank's exposure to two problem sectors, commercial real estate and forestry and paper products, declined as a percentage of total loans to 3.9% and 2.2%, from 4.7% and 2.6% respectively in 1993. While management is satisfied with the current size of its forestry and paper products exposure, it believes that its exposure to commercial real estate is still high and must be lowered in order for the bank to achieve its optimal credit portfolio.

With regard to country exposures, Table 10 on page 18 shows that with the exception of Canada and the United States, no country accounts for more than 4% of total earning assets.

A more analytical, forward-looking approach is also being applied to credit loss provisioning. Macro provisioning techniques are being used to set provision levels in addition to the analysis of individual credits. Using historical data, the bank has found an inverse relationship between the rate of change for Canada's Gross Domestic Product (GDP) and the bank's non-accrual loans in its business loan portfolio. As well, a correlation has been found between the unemployment rate and loan losses in the consumer loan portfolio. As a result, estimates of GDP growth and unemployment rates are taken into consideration when assessing the adequacy of provisions. These provisioning techniques will continue to be developed over time as management gains experience from their implementation.

ENVIRONMENTAL RISK MANAGEMENT

While the bank's operations, by their nature, do not pose a significant threat to the environment, there are a number of indirect environmental risks that must be carefully managed.

As a lender, the bank can suffer losses if a borrower cannot repay its loans due to the expense of an environmental clean-up, or if the bank becomes directly liable for a clean-up because it is deemed to have taken ownership or control of contaminated property in order to recover its funds. In some cases, this expense can extend beyond the principal value of the loan and the collateral backing it.

In light of these risks, the bank has developed detailed environmental risk assessment criteria and procedures and provided extensive training on their use to all account managers. The bank has also established an Environmental Risk Management Group which works with a cross-section of the bank's business and operational units to improve its policies and practices relating to the environment.

COMMERCIAL REAL ESTATE

As shown in Table 12 on page 21, the bank has a $7.4 billion commercial real estate exposure to construction, development and management companies worldwide. This portfolio largely accounted for the significant increase in the bank's provision for credit losses and non-accrual loans in 1992 and 1993.

A head office group is dedicated to improving the quality of this portfolio and selectively reducing its size through methods such as debt restructurings and loan sales. In cases where the bank has realized on its security, its preferred strategy is to dispose of properties which are expected to remain depressed for some time and to retain, until market values improve, those properties for which the potential for recovery is believed to be strong. At year end, the bank owned $166 million of foreclosed real estate.

In pursuing these and other options, an important contribution has been made by the bank's IPMA group. IPMA has developed a model that tracks the characteristics of each commercial real estate loan, including the underlying security, and assesses the impact of market movements on the portfolio.

At October 31, 1994, commercial real estate gross outstandings were down $837 million or 10% from a year ago, following a $1.2 billion or 13% reduction in 1993. Net outstandings were $356 million lower, following a $1.7 billion decline last year. The bank expects its exposure to fall further next year.

TABLE 12

COMMERCIAL REAL ESTATE OUTSTANDINGS

As at October 31
($ millions)

	Gross outstandings		Allowance for credit losses*		Net outstandings		Allowance/ Gross outstandings	
	1994	1993	1994	1993	1994	1993	1994	1993
Metropolitan Toronto	$2,798	$3,628	$ 885	$1,363	$1,913	$2,265	32%	38%
Rest of Canada	3,072	3,250	113	134	2,959	3,116	4	4
Total Canada	5,870	6,878	998	1,497	4,872	5,381	17	22
United States	1,013	1,005	84	77	929	928	8	8
Other international	494	331	58	47	436	284	12	14
Total	$7,377	$8,214	$1,140	$1,621	$6,237	$6,593	15%	20%

**The general provision for real estate of $200 million in 1994 (1993 – $400 million) has been allocated to the allowance for credit losses pertaining to metropolitan Toronto.*

TABLE 13

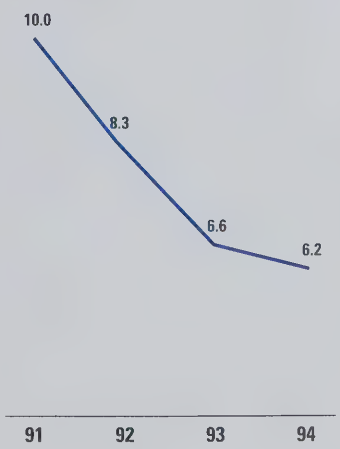
COMMERCIAL REAL ESTATE NON-ACCRUAL LOANS (NALs)

As at October 31
($ millions)

	Gross NALs		Net NALs		Net NALs/ Net outstandings		Coverage Ratio*	
	1994	1993	1994	1993	1994	1993	1994	1993
Metropolitan Toronto	$1,436	$1,924	$551	$561	29%	25%	62%	71%
Rest of Canada	373	375	260	241	9	8	30	36
Total Canada	1,809	2,299	811	802	17	15	55	65
United States	200	167	116	90	12	10	42	46
Other international	85	95	27	48	6	17	68	49
Total	$2,094	$2,561	$954	$940	15%	14%	54%	63%

**The coverage ratio represents the ratio of the allowance for credit losses to the related gross non-accrual loans.*

Total Commercial Real Estate Net Exposure
($ billions)



As shown in Table 13, gross non-accrual commercial real estate loans fell $467 million, following a $391 million increase in 1993. Write-offs of $678 million and the resolution of several problem loans through restructurings, loan paydowns and loan sales, more than offset new problem loans during the year. In 1993, commercial real estate write-offs had totalled $357 million.

Domestic

Approximately 48% of the bank's domestic commercial real estate exposure is located in metropolitan Toronto. This concentration of loans has been a key weakness in the bank's commercial real estate portfolio over the past few years, as the metropolitan Toronto area was the part of Canada hardest hit by the last recession.

As a result, much of the bank's effort to reduce exposures and resolve problem loan situations has been in this market. In 1994, this resulted in a $830 million reduction in commercial real estate gross outstandings in metropolitan Toronto, compared to a $198 million decline in 1993. Net outstandings in the Toronto real estate portfolio declined $352 million this year, following a $798 million reduction in 1993 when the bank had recorded a significant provision for credit losses.

TABLE 14

LDC EXPOSURE

As at October 31 *($ millions)*	*1994*	*1993*	*1992*	*1991*	*1990*
Exposure (1) (2)					
Brazil	$1,170	$1,255	$1,362	$1,253	$1,399
Argentina	270	267	387	372	474
Venezuela	231	222	251	210	255
Yugoslavia	–	140	141	127	133
Dominican Republic	68	76	72	77	174
Mexico (3)	–	–	–	961	985
Other	34	61	145	121	548
	1,773	2,021	2,358	3,121	3,968
Country risk provision (1)	(1,307)	(1,415)	(1,676)	(2,174)	(2,844)
Exposure, net of country risk provision	$ 466	$ 606	$ 682	$ 947	$1,124
Country risk provision, as a percentage of exposure	74%	70%	71%	70%	72%
Common shareholders' equity	$6,323	$5,682	$5,912	$6,101	$5,308
Exposure, net of country risk provision, as a percentage of common shareholders' equity	7%	11%	12%	16%	21%

(1) Exposure in the 52 designated countries represents the face value of cross-border exposure (i.e. excluding locally funded business), net of any specific provisions. The country risk provision has been grossed up to include previously recorded writedowns on loan exchanges.

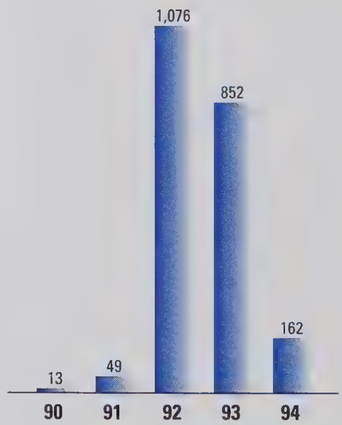
(2) In accordance with the revised guidelines of the Superintendent of Financial Institutions Canada, short-term trade financing is excluded from LDC exposure amounts commencing in 1993. As at October 31, 1994, the face and carrying values of LDC short-term trade financing was $353 million (1993 – $289 million).

(3) Mexico was removed from the list of designated countries in 1992. As at October 31, 1994, the face and carrying values of the bank's Mexican exposure were $325 million (1993 – $324 million; 1992 – $1,129 million) and $248 million (1993 – $291 million; 1992 – $851 million) respectively.

As shown in Table 17 on page 26, the domestic commercial real estate provision for credit losses (which related mostly to the Toronto portfolio) was $162 million in 1994 compared to $852 million in 1993.

Gross non-accrual loans in the metropolitan Toronto market fell by $488 million in 1994, after write-offs of $584 million. This compared to an increase of $437 million in 1993, despite write-offs of $130 million that year. Net non-accrual loans in this market declined $10 million, following a $163 million reduction last year.

Domestic Commercial Real Estate Provision for Credit Losses
($ millions)



The allowance for credit losses in metropolitan Toronto, which includes a $200 million general provision, amounted to 32% of related gross outstandings and 62% of related gross non-accrual loans at year end. Although down from 38% and 71% a year ago, these levels are among the highest in the Canadian banking industry.

Based on the outlook for the Canadian economy discussed on page 6, further improvements are expected in the provision for credit losses and non-accrual loans in domestic commercial real estate in 1995, as existing problem situations get resolved and fewer new problem loans are added.

International

Gross outstandings in the international commercial real estate portfolio increased this year. This resulted from a higher translated value of foreign currency denominated exposures stemming from a significant weakening of the Canadian dollar this year and from some additional exposure, much of which is collateralized by cash or Government of Canada securities.

International commercial real estate gross non-accrual loans rose by $23 million reflecting in part the weakening of the Canadian dollar. However, as a result of a similar increase in the allowance for credit losses, international net non-accrual commercial real estate loans remained largely unchanged from a year ago.

FORESTRY AND PAPER PRODUCTS

The bank has a $2.8 billion gross exposure to the forestry and paper products sector, down $1.1 billion from a year ago. Gross non-accrual loans in this sector declined to $20 million in 1994 from $354 million in 1993. The improvement was attributable largely to the resolution of a couple of large accounts.

Net non-accrual loans in the domestic forestry and paper products sector fell to $12 million in 1994 from $85 million in 1993. This year's amount represented approximately .4% of the $2.8 billion in net outstandings to this sector at year end, down from 2.3% a year ago.

LESS DEVELOPED COUNTRIES (LDCs)

As shown in Table 14 on page 22, the face value of the bank's exposure to LDCs dropped by $248 million in 1994, after declining by $337 million in 1993 and by $763 million in 1992. This year's reduction resulted largely from the sale of LDC loans and securities discussed below. Virtually all of the bank's LDC exposure now consists of bonds received in lieu of principal or past due interest under Brady-type debt restructuring plans.

At October 31, 1994, the bank's net LDC exposure represented 7% of common shareholders' equity, down from 11% at year-end 1993.

The market value of the bank's LDC and Mexican exposure exceeded its net book value by $350 million at the end of 1994, compared to $500 million a year ago. Political uncertainties in some LDCs, combined with an increase in U.S. interest rates, lowered the market values for LDC Brady bonds. Included in these market value surpluses are amounts totalling $110 million in 1994 and $82 million in 1993 relating to bonds received in lieu of past due interest under Brady debt restructuring plans.

There were several important developments on the LDC front during 1994.

First, a debt restructuring plan for Brazil was concluded in this year's second quarter. Under this plan, the bank exchanged $1.2 billion of medium and long-term loans to Brazil for Brazilian government bonds and received from that country $135 million of past due interest in the form of 12-year bonds. At October 31, 1994, the market value of these past due interest bonds was 67% of their face value or $90 million.

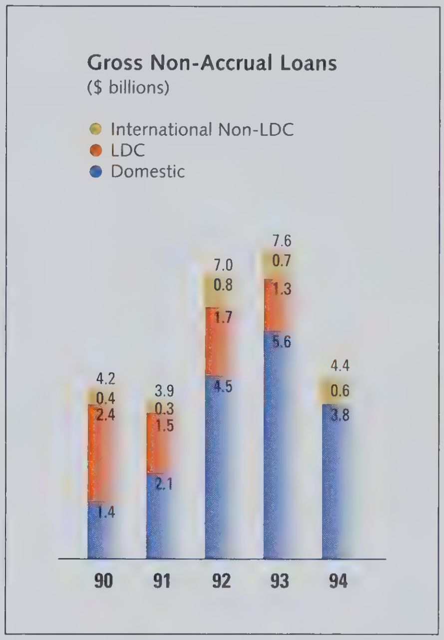
Second, a debt restructuring plan for the Dominican Republic was concluded in this year's fourth quarter. The bank had $80 million of medium and long-term loans to the Dominican Republic and was owed $33 million of past due interest. Under the terms of the plan, the bank received $35 million of discount bonds, $20 million of past due interest bonds and $11 million of cash. The market value of the past due interest bonds totalled 63% of their face value or $13 million at year end.

Third, some LDC exposures were sold this year. In the first quarter, the bank sold for $82 million ($50 million after income taxes) past due interest bonds that were received from Argentina at the end of 1993 when a restructuring plan for that country was completed. Also in the first quarter, $74 million of Mexican Brady bonds were sold for a pre-tax gain of $4 million. Finally, the bank sold its exposure to Yugoslavia, totalling $147 million, in the fourth quarter of this year. This sale had no impact on the bank's earnings.

In aggregate, the bank has LDC past due interest bonds with a face value of $166 million and a market value of $110 million at year end. These bonds are carried on the balance sheet at nil value and, when sold, their proceeds will be added to net interest income. The bank intends to sell some or all of these bonds when their prices on the secondary market are sufficiently attractive.

NON-ACCRUAL LOANS

As shown in Note 4 to the financial statements on page 43, total gross non-accrual loans were $4.4 billion at October 31, 1994, down $3.2 billion or 42% from a year ago, following increases of over $500 million in 1993 and $3.1 billion in 1992.



This year's large reduction reflected the resolution of several problem accounts, loan sales and $2.1 billion of write-offs this year versus write-offs of $1.3 billion in 1993.

More than half of this year's $3.2 billion reduction occurred in the domestic loan portfolio, where gross non-accrual loans declined by $1.8 billion or 32% compared to an increase of $1.0 billion in 1993. Of the $1.8 billion, $490 million related to domestic commercial real estate loans and $334 million to forestry and paper product accounts.

Gross non-accrual loans in the international loan portfolio fell by $1.4 billion largely due to the adoption of Brady plans for Brazil and the Dominican Republic and the subsequent return to performing status of exposures to those two countries.

Included in gross non-accrual loans are loans to companies that are currently paying interest, but which the bank believes may have problems in the future in meeting their principal or interest payments. Such loans totalled approximately $700 million at October 31, 1994.

TABLE 15

NON-ACCRUAL LOANS BY GEOGRAPHIC AREA AND BY TYPE OF BUSINESS *(net of allowance for credit losses)*

As at October 31 ($ millions)	*1994*	*1993*	*1992*	*1991*	*1990*
Domestic					
Atlantic provinces	$ 88	$ 82	$ 51	$ 50	$ 25
Quebec	265	209	211	214	90
Ontario	1,479	2,207	2,176	935	483
Manitoba	23	42	33	41	57
Saskatchewan	50	85	56	102	83
Alberta	123	348	345	172	91
British Columbia	57	254	270	257	217
General provision	(300)	(550)	(325)	–	–
Total Domestic	1,785	2,677	2,817	1,771	1,046
Consisting of:					
Business loans					
Commercial real estate	811	802	817	260	136
Small business	134	214	145	148	97
Agriculture	73	91	65	118	100
Forestry and paper products	12	85	180	236	178
Other	510	1,143	1,258	689	372
	1,540	2,335	2,465	1,451	883
Residential mortgages	179	225	199	167	83
Consumer instalment and other personal loans	66	117	153	153	80
Total Domestic	1,785	2,677	2,817	1,771	1,046
International					
United States	145	103	189	104	98
Europe	97	145	121	83	169
Latin America and Caribbean	56	77	61	55	43
Asia Pacific	10	23	14	3	5
Total International, excluding LDC loans	308	348	385	245	315
LDC loans	–	233	279	–	379
Total International	308	581	664	245	694
Total	$2,093	$3,258	$3,481	$2,016	$1,740
Total loans and acceptances					
Domestic					
Residential mortgages	$ 43,525	$ 43,177	$ 32,095	$ 28,515	$ 24,988
Consumer instalment and other personal loans	19,228	19,111	17,505	17,100	16,598
Business and government loans and acceptances	41,581	43,410	39,525	43,485	44,388
Total Domestic	104,334	105,698	89,125	89,100	85,974
International	17,257	17,073	16,749	16,454	17,089
Total	$121,591	$122,771	$105,874	$105,554	$103,063
Non-accrual loans as a percentage of related loans and acceptances					
Domestic					
Residential mortgages	.4%	.5%	.6%	.6%	.3%
Consumer instalment and other personal loans	.3	.6	.9	.9	.5
Business loans and acceptances	3.7	5.4	6.2	3.3	2.0
Total Domestic	1.7	2.5	3.2	2.0	1.2
International	1.8	3.4	4.0	1.5	4.1
Total	1.7%	2.7%	3.3%	1.9%	1.7%

TABLE 16

INTEREST EARNED ON AVERAGE NON-ACCRUAL LOANS *(net of allowance for credit losses)*
For the year ended October 31

($ millions)	*1994*	*1993*	*1992*	*1991*	*1990*
Domestic					
Average non-accrual loans	**$2,197**	$2,958	$2,287	$1,451	$732
Interest earned (1)	**$22**	$(9)	$(44)	$(12)	$(4)
International					
Average non-accrual loans	**$451**	$585	$461	$427	$261
Interest earned (1)					
Loans to LDCs	**$123**	$172	$45	$89	$62
Other loans	**5**	11	(2)	9	–
Total	**$128**	$183	$43	$98	$62
Total					
Average non-accrual loans	**$2,648**	$3,543	$2,748	$1,878	$993
Interest earned (1)	**$150**	$174	$(1)	$86	$58

(1) Interest earned on average non-accrual loans comprises interest received on non-accrual loans net of interest reversals on newly-classified non-accrual loans.

When interest is received on non-accrual loans, it is not recorded as income but is used to reduce the principal amount of the loan. The amount of such accumulated interest was $152 million at year-end 1994 versus $134 million a year ago.

As shown in Table 15 on page 24, net non-accrual loans, that is gross non-accrual loans less the related allowance for credit losses, were $2.1 billion at year end, down $1.2 billion or 36% from a year ago. Domestic net non-accrual loans declined by $892 million, with $658 million or approximately three-quarters of the decrease occurring in metropolitan Toronto where a large number of accounts in various industries were resolved.

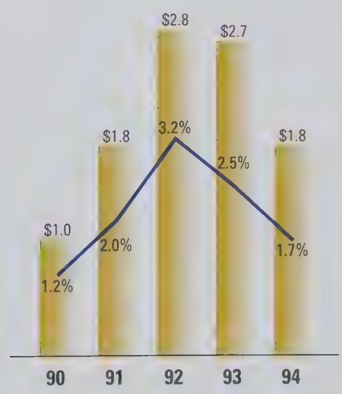
Alberta and British Columbia also showed significant reductions in net non-accrual loans of approximately $200 million each, reflecting the resolution of large business accounts in the forestry and paper products and transportation sectors.

Net non-accrual loans in the forestry and paper products portfolio declined by $73 million, while those in the remaining domestic business loan portfolio were $722 million lower as several problem accounts in a variety of industries were resolved this year.

The consumer loan portfolio, which had shown much less deterioration during the last recession than the business loan portfolio, strengthened further this year. Net non-accrual consumer instalment and other personal loans fell by $51 million, following a $36 million drop in 1993 and no change in 1992. Similarly, net non-accrual residential mortgages declined by $46 million, following a $26 million increase in 1993 and a $32 million increase in 1992.

As a percentage of total loans and acceptances, domestic net non-accrual loans improved to 1.7% in 1994 from 2.5% in 1993 and 3.2% in 1992.

Domestic Net Non-Accrual Loans
($ billions and % of loans and acceptances)



Net non-accrual domestic residential mortgages, other consumer loans and business loans accounted for .4%, .3% and 3.7% respectively of related loans and acceptances, compared to .5%, .6% and 5.4% in 1993.

International net non-accrual loans declined by $273 million, reflecting a $233 million reduction in the LDC portfolio where the previously-mentioned debt restructuring agreements for Brazil and the Dominican Republic allowed LDC net non-accrual loans to decline to zero.

Based on its Canadian economic outlook for 1995, which is discussed on page 6, the bank expects net non-accrual loans to come much closer to a more normal level of 1% of total loans and acceptances. Most of the improvement is expected to occur in the domestic business portfolio where the level of non-accrual loans still remains high.

TABLE 17

PROVISION FOR CREDIT LOSSES BY GEOGRAPHIC AREA AND BY TYPE OF BUSINESS

For the year ended October 31 ($ millions)	*1994*	*1993*	*1992*	*1991*	*1990*
Provision for credit losses					
Domestic					
Specific provisions					
Atlantic provinces	$ 56	$ 55	$ 53	$ 32	$ 17
Quebec	189	110	199	143	139
Ontario	855	1,297	1,309	317	152
Manitoba	8	19	35	25	13
Saskatchewan	10	22	32	32	41
Alberta	(54)	71	137	50	57
British Columbia	(28)	40	113	63	18
	1,036	1,614	1,878	662	437
General provision	(250)	225	325	–	–
Total Domestic	786	1,839	2,203	662	437
Consisting of:					
Business loans					
Commercial real estate	162	852	1,076	49	13
Small business	184	127	108	93	76
Agriculture	(2)	4	19	23	25
Forestry and paper products	(24)	173	73	29	22
Other	239	446	681	269	183
	559	1,602	1,957	463	319
Residential mortgages	21	38	13	5	1
Consumer instalment, credit card and other personal loans	206	199	233	194	117
Total Domestic	786	1,839	2,203	662	437
International					
Specific provisions					
United States	22	59	72	(1)	(6)
Europe	(1)	50	57	26	(12)
Latin America and Caribbean	16	44	18	18	2
Asia Pacific	(3)	8	–	–	(1)
	34	161	147	43	(17)
Country risk provision	–	(250)	(300)	(100)	–
Total International	34	(89)	(153)	(57)	(17)
Total	$ 820	$1,750	$2,050	$605	$420
Average loans and acceptances					
Domestic					
Residential mortgages	$ 43,358	$ 33,821	$ 30,342	$ 26,708	$ 23,740
Consumer instalment, credit card and other personal loans	18,715	17,041	17,221	16,879	16,389
Business and government loans and acceptances	42,719	40,923	42,821	45,524	42,360
Total Domestic	104,792	91,785	90,384	89,111	82,489
International	18,001	17,654	17,084	16,120	15,925
Total	$122,793	$109,439	$107,468	$105,231	$98,414
Provision for credit losses as a percentage of related average loans and acceptances					
Domestic					
Residential mortgages	–	.1%	–	–	–
Consumer instalment, credit card and other personal loans	1.1%	1.2	1.4%	1.1%	.7%
Business loans and acceptances	1.3	3.9	4.6	1.0	.8
Total Domestic	.8	2.0	2.4	.7	.5
International, excluding country risk provision	.2	.9	.9	.3	(.1)
Total, excluding country risk provision	.7%	1.8%	2.2%	.7%	.4%
Allowance for credit losses					
Balance at beginning of year	$ 4,324	$3,575	$1,957	$2,463	$3,042
Provision for credit losses	820	1,750	2,050	605	420
Write-offs	(1,886)	(1,213)	(659)	(774)	(548)
Recoveries	88	116	75	77	136
Royal Trust – balance at date of acquisition	–	120	–	–	–
Gains (losses) realized on sales and exchanges of LDC loans	(181)	(90)	37	(313)	(588)
Other, primarily translation adjustments on provisions denominated in foreign currencies	37	66	115	(101)	1
Balance at end of year	$ 3,202	$4,324	$3,575	$1,957	$2,463

PROVISION FOR CREDIT LOSSES

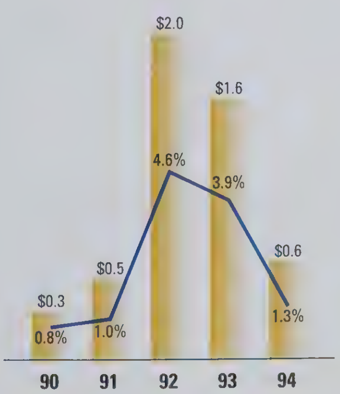
The provision for credit losses in 1994 was $820 million, less than half of last year's $1,750 million and down 60% from $2,050 million in 1992. Royal Trust's provision for credit losses was $67 million this year.

This year's provision comprised $1,070 million of specific provisions, down from $1,775 million a year ago, and the reversal of $250 million of the general provision which had been established in the fourth quarter of 1993. This reversal, of which $200 million related to domestic commercial real estate, occurred as specific accounts requiring provisions were identified.

In the domestic business loan portfolio, the provision for credit losses fell by $1.0 billion this year. Provisions in domestic commercial real estate declined by $690 million as there were fewer new problem loans in this sector and they were smaller, on average, than in 1993 and 1992. Provisions in the forestry and paper products portfolio fell by nearly $200 million in 1994.

The total provision for credit losses on domestic business loans represented 1.3% of related average loans and acceptances in 1994, down substantially from last year's 3.9%.

Provision for Credit Losses on Domestic Business Loans
($ billions and % of average loans and acceptances)



The provision for credit losses on domestic residential mortgages declined to .05% of related outstandings from .1% a year ago, while that on consumer instalment, credit card and other personal loans declined to 1.1% of related outstandings from 1.2% last year.

Internationally, specific provisions dropped by $127 million to $34 million, with reductions of $51 million in Europe, $37 million in the United States, $28 million in Latin America and the Caribbean and $11 million in Asia Pacific. The bank is satisfied with the quality of its non-LDC international loan portfolio, which had a provisioning ratio of .2% this year, down from .9% last year.

As shown in Note 5 to the financial statements on page 43, the allowance for credit losses at October 31, 1994 was $3.2 billion, down from $4.3 billion a year ago. Specific provisions were $2.0 billion at year end, down about $700 million from 1993. In 1994, the bank wrote off loans totalling $2.1 billion.

The country risk provision was $940 million at year-end 1994, of which $69 million was applied to LDC gross non-accrual loans, resulting in nil LDC net non-accrual loans.

At year end, there remained $300 million in the bank's general provision, of which $200 million related to commercial real estate and $100 million was for potential losses elsewhere in the credit portfolio.

The provision for credit losses is expected to decline further in 1995. However, since the bank is now much closer to achieving its .5% goal for total provisions as a percentage of average loans and bankers' acceptances, the expected reduction between 1994 and 1995 will be much smaller than between 1993 and 1994.

INTEREST RATE RISK MANAGEMENT

Interest rate risk is the sensitivity of the bank's financial condition to future movements in interest rates. The bank is exposed to interest rate risk as a result of mismatches or "gaps" in the amounts of assets and liabilities and off-balance sheet instruments that mature or reprice in a given period. These gaps result from customers' market preferences, strategic positioning to enhance profitability and transactions such as the issuance of fixed rate capital.

An "asset sensitive" position exists when more assets than liabilities reprice in a certain period. As a result, if interest rates rise, net interest income is favourably impacted since assets are repriced at higher rates more quickly than liabilities. Conversely, a "liability sensitive" position exists when more liabilities than assets mature or reprice in a given period. In this case, rising interest rates have a detrimental impact on net interest income.

The magnitude of the impact on earnings of such gaps is a function of the frequency and degree of interest rate changes and the maturity profiles of the assets and liabilities, which depend largely on customers' varying term preferences for loans and deposits.

The bank can reduce this risk by matching the repricing of assets and liabilities. This can be achieved by changing the mix of assets and liabilities through marketing and price initiatives or through the use of derivatives. The mix of on-balance sheet instruments and derivatives used to manage interest rate risk is based on many factors including economic conditions, capital and liquidity considerations and guidelines in place which limit exposures by instrument and currency.

The bank's interest rate risk management policies are approved by the Chief Executive Officer, following their review by the Asset and Liability Committee. This Committee seeks to achieve a balance between reducing risk to earnings from adverse movements in interest rates and improving net interest income. A balance is necessary since a complete elimination of risk also reduces the potential for increasing profits through correct anticipation of the direction and extent of interest rate changes. The day to day management of interest rate risk is carried out at a decentralized level with units operating within specified authorities. Interest rate risk management policies are reviewed annually by the Audit Committee on behalf of the Board of Directors.

TABLE 18

INTEREST RATE SENSITIVITY POSITION
As at October 31, 1994
($ millions)

	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash and deposits with Bank of Canada						$ 1,187	$ 1,187
Deposits with other banks	$13,557	$ 1,356	$ 349	$ –	$ –	–	15,262
Securities	8,850	3,708	3,314	8,161	3,050	612	27,695
Loans	61,192	9,500	8,606	30,320	1,785	3,983	115,386
Customers' liability under acceptances						6,205	6,205
Premises and equipment						1,975	1,975
Other assets	519	46	–	–	–	4,804	5,369
	$84,118	$14,610	$12,269	$38,481	$4,835	$18,766	$173,079
Liabilities and shareholders' equity							
Consumer deposits	$44,843	$ 9,519	$14,214	$15,623	$ 156	$ 859	$ 85,214
Other deposits	40,285	3,353	2,205	87	21	4,650	50,601
Acceptances						6,205	6,205
Secured liabilities of subsidiaries other than deposits	2,245	–	–	–	–	2	2,247
Other liabilities	6,930	514	386	1,474	1,903	5,539	16,746
Subordinated debentures	1,583	134	–	700	1,060	–	3,477
Shareholders' equity	150	–	–	–	–	8,439	8,589
	$96,036	$13,520	$16,805	$17,884	$3,140	$25,694	$173,079
On-balance sheet gap	$(11,918)	$ 1,090	$(4,536)	$20,597	$1,695	$(6,928)	$ –
Off-balance sheet gap (1)	8,807	(2,486)	600	(5,921)	(1,000)	–	–
Total interest rate sensitivity gap	$ (3,111)	$(1,396)	$(3,936)	$14,676	$ 695	$(6,928)	$ –
Cumulative interest rate sensitivity gap	$ (3,111)	$(4,507)	$(8,443)	$ 6,233	$6,928	$ –	$ –

(1) The off-balance sheet gap represents the net notional amounts of off-balance sheet financial instruments, such as forward rate agreements and interest rate swaps, which are used to manage interest rate risk.

The bank measures interest rate risk from both a current earnings and an economic perspective.

The current earnings perspective looks at the potential change in net income (net income risk) over the next twelve months, given an immediate and sustained adverse movement in interest rates.

The economic perspective looks at the potential impact of interest rate movements on the underlying economic values of the assets and liabilities and off-balance sheet instruments (market value risk). Market value risk is the present value of the potential change in net income over all future periods and hence provides a leading indication of the impact on future earnings of an adverse movement in rates.

Given the bank's interest rate sensitivity position at October 31, 1994, and assuming no management action, an immediate and sustained 1% rise in interest rates across all maturities would lower net income after tax by approximately $39 million over the next twelve months, and would reduce common shareholders' equity, in present value terms, by approximately $230 million after tax.

The bank uses a wide range of analytical techniques, which include gap analysis, simulation modelling and duration analysis, to monitor and manage interest rate risk.

Gap analysis is the foundation of interest rate risk management at the bank. Gap analysis measures the difference between the amount of assets and liabilities that reprice in a particular time period, plus the net off-balance sheet instruments repricing in the same period.

Table 18 provides the bank's interest rate sensitivity position as at October 31, 1994 based upon the known repricing dates of fixed rate assets and liabilities and the assumed repricing dates of others. The table shows the cumulative gaps at various intervals with the impact of off-balance sheet contracts shown separately.

The under one year gap shows a liability sensitive position with an exposure to a rising rate environment. Conversely, interest rate exposure beyond the one year period is to declining rates. Positions were impacted during 1994 by customers' continuing preference for shorter term mortgages.

It should be emphasized that simple gap analysis shows a position at one particular time and this position can be altered depending on the bank's expectation of interest rate changes as well as on the product and term preferences of customers.

Simulation models, which focus primarily on net income risk, allow the bank to analyze interest rate risk in a dynamic context. Unlike gap analysis, simulation models take explicit account of pricing strategies, the growth, volume and mix of future business, future changes in interest rates, and the behaviour of embedded options. The assumptions incorporated in these simulation models are continually monitored and updated as market conditions and customer behaviour change. In addition, the systems which support these models are regularly reviewed and upgraded to ensure enhanced measurement of the more complex exposures.

TABLE 19

LIQUIDITY

As at October 31 ($ millions)	*1994*	*1993*	*1992*	*1991*	*1990*
Canadian dollar liquid assets					
Cash and deposits with Bank of Canada	$ 1,023	$ 1,198	$ 1,443	$ 1,298	$ 1,159
Deposits with other banks	2,657	822	1,234	1,350	1,106
Securities (1)	23,447	19,663	12,193	9,791	6,645
	27,127	21,683	14,870	12,439	8,910
Foreign currency liquid assets					
Cash and deposits with Bank of Canada	164	175	73	89	81
Deposits with other banks	12,605	8,679	8,188	6,083	6,417
Securities (1)	5,822	4,744	2,905	3,003	2,130
	18,591	13,598	11,166	9,175	8,628
Total liquid assets					
Cash and deposits with Bank of Canada	1,187	1,373	1,516	1,387	1,240
Deposits with other banks	15,262	9,501	9,422	7,433	7,523
Securities (1)	29,269	24,407	15,098	12,794	8,775
	$45,718	$35,281	$26,036	$21,614	$17,538
Liquid assets as a percentage of total assets	26%	21%	19%	16%	14%

(1) Securities include investment and trading account securities and call loans, but exclude loan substitute securities.

Duration analysis is used to measure the bank's market value risk. Duration is the weighted average term-to-maturity of the cash flows from assets, liabilities and off-balance sheet instruments. Duration analysis measures the relative sensitivity of the value of these instruments to changing interest rates, and therefore reflects how changes in interest rates will affect the bank's economic value. In this context, the longer the duration, the greater the price sensitivity.

LIQUIDITY RISK MANAGEMENT

Liquidity management is designed to ensure that the bank has the ability to meet its financial obligations in a cost effective and timely fashion. Effective liquidity management is critical to maintaining market confidence, protecting the capital base and allowing for profitable business expansion.

Liquidity and funding policies and procedures are reviewed by the Chief Executive Officer and the Asset and Liability Committee, and are also reviewed annually by the Audit Committee on behalf of the Board of Directors.

The bank's funding requirements are determined by examining future cash flows based on the expected maturities of assets, liabilities and off-balance sheet instruments. Limits regarding the maximum net outflow of funds in a particular period are in place. Liquidity reports are provided to senior management to monitor effectively any changes in liquidity and to react accordingly to fluctuations in market conditions.

Liquidity parameters cannot be established in isolation from forces in the marketplace. Changes in economic, political, regulatory and other operating conditions affect liquidity levels maintained by the bank. In managing liquidity, the bank also takes into account the various legal limitations and tax implications of transferring funds between business units. The federal and certain provincial statutes applicable to the bank's federally chartered loan and trust company subsidiaries apply capital adequacy, liquidity and investment standards to their global operations. These statutes also restrict transactions between these subsidiaries and their related parties. However, these restrictions do not affect the bank's ability to meet its obligations.

Contingency plans exist for both Canadian dollar and foreign currency liquidity to satisfy funding requirements under general market disruption or adverse economic conditions.

As shown in Table 19, the bank's liquid assets, which consist largely of deposits with other banks and securities, totalled $45.7 billion at October 31, 1994, up from $35.3 billion at year-end 1993. At October 31, 1994, liquid assets accounted for 26% of total assets compared to 21% a year earlier. The bank places most of its foreign currency liquidity with other large international banks. Foreign currency deposits with other banks were $12.6 billion or 31% of total foreign currency assets at October 31, 1994, compared to $8.7 billion or 23% a year ago.

Sound and prudent liquidity management also requires a stable and diversified funding base. The bank's funding environment differs significantly in its domestic and international markets. Such differences relate to the bank's client base characteristics, the nature of the deposit market, the bank's market share, and regulatory environments.

Table 20 on page 30 provides details of the bank's deposits. The bank's Canadian dollar deposits consist primarily of deposits from consumers which are facilitated by the bank's extensive domestic branch and banking machine network.

TABLE 20

DEPOSITS

As at October 31 *($ millions)*	*1994*	*1993*	*1992*	*1991*	*1990*
Canadian dollar deposits					
Consumers	$ 75,910	$ 75,965	$ 59,891	$ 56,443	$52,333
Businesses and governments	21,610	19,961	18,968	17,187	14,745
Banks	1,476	1,710	1,157	1,310	1,396
	98,996	97,636	80,016	74,940	68,474
Foreign currency deposits					
Consumers	9,304	8,731	7,757	7,889	8,244
Businesses and governments	14,812	13,820	11,277	12,553	12,590
Banks	12,703	10,212	13,172	9,640	9,860
	36,819	32,763	32,206	30,082	30,694
Total Deposits					
Consumers	85,214	84,696	67,648	64,332	60,577
Businesses and governments	36,422	33,781	30,245	29,740	27,335
Banks	14,179	11,922	14,329	10,950	11,256
	$135,815	$130,399	$112,222	$105,022	$99,168
Consumer deposits as a percentage of total deposits	63%	65%	60%	61%	61%

The bank funds its foreign currency activities mainly through the wholesale markets by taking deposits from corporate clients and other large international banks. Since wholesale funding amounts to a significant portion of the international funding base, the bank manages its liquidity with a view to increasing the diversification by depositor type and country, extending maturity whenever possible and maintaining an adequate cash position in foreign currencies.

The bank's liquidity is further enhanced by its access to global money and capital markets and by maintaining access to additional funds with existing counterparties. Such activities require the continual development and strengthening of relationships with a diverse network of dealers and counterparties.

OFF-BALANCE SHEET ACTIVITIES

The bank uses various types of off-balance sheet instruments in the ordinary course of business. These off-balance sheet activities can be broadly divided into two categories: credit instruments and derivatives.

CREDIT INSTRUMENTS

Credit instruments, which include commitments to extend credit, standby letters of credit, financial and non-financial guarantees and commercial letters of credit, are entered into primarily to meet the needs of customers. These arrangements are discussed in more detail in Note 15 to the financial statements on page 48.

DERIVATIVES

Derivatives are contracts whose values are derived from interest rates, foreign exchange rates, equity prices or commodity prices. The bank utilizes these instruments, which include swaps, options, futures and forward contracts, in two principal activities: sales and trading, and asset/liability management.

Most of the bank's derivative activities are sales and trading related. Sales activities involve the design and sale of derivative products at competitive prices to clients to enable them to transfer, modify or reduce current or expected risks. Trading activities include market making and positioning. Market making involves trading with the intention of making a profit based on the spread between bid and ask prices. Net open market risk positions, which are a by-product of these sales and trading activities, are typically left open for short periods before being hedged in the interbank market. Positioning involves taking positions for longer periods in order to capitalize on anticipated movements in markets or instruments and enhance profitability. Open market risk positions are monitored and controlled within prudent limits, based on currency and term.

Asset/liability management involves the use of derivatives as a risk management tool and includes both hedging and investment activities. Common hedging activities include the use of interest rate swaps to hedge interest rate risk positions arising from customer borrowing and lending activities, the use of interest rate options to hedge prepayment and other options embedded in consumer products, and foreign exchange forward contracts to hedge capital invested in foreign operations. Investment activities involve using derivatives as a substitute for investments in on-balance sheet securities where these positions may result in potentially more favourable terms depending upon market conditions. These activities promote balanced levels of interest rate risk and aid in the bank's liquidity management activities.

The notional or contractual amounts of the bank's derivatives are provided in Note 15 to the financial statements on page 48. Forward rate agreements, interest rate swaps and foreign exchange spot and forward contracts increased over the prior year by $28 billion, $68 billion and $116 billion respectively. The increases are primarily attributable to greater demand for these instruments from the bank's clients and from continued growth in financial markets.

TABLE 21

DERIVATIVE CREDIT EXPOSURE BY COUNTERPARTY TYPE
As at September 30
($ millions)

	1994			1993
	Current credit exposure(1)	*Credit-equivalent amount(2)*	*Risk-adjusted balance*	*Risk-adjusted balance*
Banks	$ 7,934	$12,016	$2,394	$1,809
OECD governments	726	1,404	–	–
Other	2,208	3,341	1,665	1,538
Total	$10,868	$16,761	$4,059	$3,347

(1) Represents current replacement value of all outstanding contracts in a gain position, without factoring in the impact of master netting agreements.
(2) Comprised of current replacement value plus potential exposure calculated in accordance with the capital adequacy requirements of the Superintendent of Financial Institutions Canada.

Interest rate options outstanding are lower than in the prior year. This has been offset by moderate growth in foreign currency options. Interest rate and currency futures have increased over the prior year as the bank continues to be very active in this business. Equity and commodity contracts, which have grown slightly over last year largely in response to client demands, remain a relatively small part of the bank's derivatives business.

Notional amounts of derivatives are used as a reference point to calculate payments and are a common measure of business volume. Notional amounts, however, are not indicative of credit or market risk exposure.

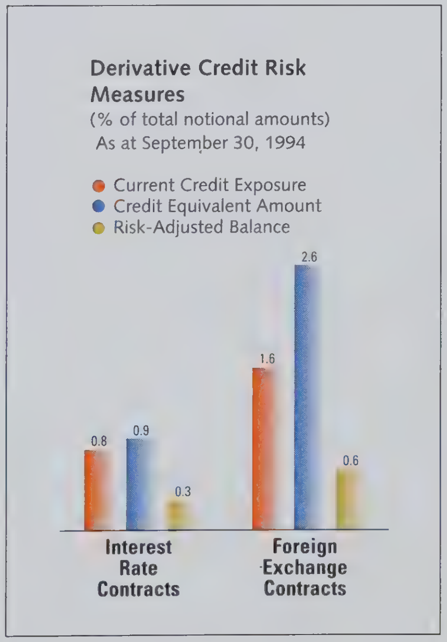
Credit Risk

Credit risk exposure on derivatives, also referred to as the credit-equivalent amount, is measured as the sum of the current replacement value of the contract plus an estimate of potential exposure over the remaining life of the contract.

Current replacement value, commonly known as current credit exposure, represents the cost to replace a contract at current market rates should the counterparty default. When the contract has a positive market value, it indicates that the counterparty owes the bank and creates a credit risk for the bank. When the contract has a negative market value, the bank does not have any credit risk because it is the bank who owes the current replacement value to the counterparty.

Potential exposure represents an estimate of the potential future exposure of the contract as a result of market changes. Potential exposure is primarily a function of the term to maturity and the expected volatility of the rate or index underlying the contract.

Bank capital adequacy guidelines, issued by the Office of the Superintendent of Financial Institutions (OSFI), define the amount of capital required to underpin the credit risk arising from derivatives. Table 23 on page 34 shows that the risk-adjusted amounts associated with derivatives represent only a small fraction of the nominal values used to express the volume of instruments outstanding.



The credit exposure on derivatives is managed through the same credit approval, limits and monitoring procedures that the bank uses for other credit transactions. Credit utilization is checked against limits on a daily basis and is subject to a standard exception reporting process.

The bank manages its credit exposure by dealing with creditworthy counterparties, by managing the size, diversification and maturity structure of the portfolio and, whenever possible, by using credit mitigation techniques. Credit mitigation techniques include collateral requirements, master netting agreements to effect termination and closeout, rights to re-negotiate contracts to ensure target market values for individual counterparties are not exceeded, and settlement netting.

Termination and closeout agreements, often referred to as master netting agreements, provide for the calculation of a single monetary obligation if the counterparty defaults or upon the occurrence of another event such as insolvency or bankruptcy. If such an event occurs, the bank would have a claim (obligation) to receive (pay), only the net sum of the positive and negative market values of all individual transactions governed by the master agreement.

Although the bank actively encourages counterparties to enter into master netting agreements, the impact of these agreements on the bank's measure of credit risk exposure is only recognized where analysis, based on appropriate opinions of law, supports such recognition.

Settlement netting arrangements provide for the offsetting of contractual payments and receipts, in the ordinary course of business, by currency and value date, between the bank and its counterparties.

The bank believes the overall credit quality of its portfolio of derivatives to be high. Table 21 on page 31 shows the current credit exposures, the credit-equivalent amounts and related risk-adjusted balances of the bank's derivatives by counterparty type. At September 30, 1994, over 71% of the total credit-equivalent amount outstanding was with bank counterparties. Based on the bank's internal risk rating system, over 95% of the credit exposure relating to swaps, interest rate options and foreign exchange forward contracts were to counterparties with a credit rating of investment grade or better.

A maturity profile of the bank's derivative instruments is presented in Note 15 to the financial statements on page 48. The majority of the bank's derivatives are outstanding for less than one year. The average term of the swaps and interest rate option portfolios is approximately 2.1 years. The bulk of credit exposure for foreign exchange forward contracts pertains to contracts with a term of less than three months.

Market Risk

The market risk of derivatives is the risk to earnings that arises from movements in interest rates, foreign exchange rates and equity or commodity prices.

The bank has established risk management policies and limits within which exposure to market risk is monitored and controlled. Risk management policies are reviewed and approved annually by the Audit Committee on behalf of the Board of Directors.

Global limits for market risk exposure for each of the bank's major activities are established through a formal process which includes an assessment of the risk/reward trade-off for the product or activity and the development of a recommended limit for the maximum market risk exposure. These limits are reviewed by the Treasury Risk Management Committee with a further review by the Asset and Liability Committee for all material limits. All limits are approved by the Chief Executive Officer. These risk limits, which are allocated to trading units, are monitored and controlled independently of the trading function.

The bank's activities in the derivative markets are further supported by a market risk policy group whose mandate is to provide an evaluation of market risk authority and limit requests, limit utilization and average risk levels, independent of the trading function.

In addition, the group establishes volatility and correlation parameters of market rates and prices for the estimation of market risks in a product or portfolio, and reviews the mathematical and simulation models utilized by the bank.

Measurement and management of the bank's exposure to market risks is only meaningful when the market risks of derivatives and on-balance sheet instruments, such as loans and deposits, are aggregated and the resulting net exposures to interest rate, foreign exchange and other market risks identified.

A discussion of the bank's interest rate risk management policies and measurement approach was provided in the Interest Rate Risk Management section on page 27.

The bank is exposed to foreign exchange risk in both the spot and forward foreign exchange markets. Spot foreign exchange risk arises when the total assets in any currency do not equal the total liabilities in the same currency. Unless there is a match between the level of assets, liabilities and off-balance sheet items in each currency, there is a risk that exchange rate movements may have a negative financial impact.

Forward foreign exchange market risk arises when, for a given currency, the amount of purchased forward contracts that settle on a given date differs from the amount of sold contracts that settle on that date. Forward foreign exchange rates are based on spot rates and interest rate differentials between the respective currencies. Therefore, forward position mismatches are exposed to movements in the interest rates applicable to the respective currencies.

The bank uses the "dollars at risk" (DAR) methodology to measure foreign exchange market risk. DAR relates potential market rate changes directly to their impact on before-tax income. It determines, with 95% confidence, the worst-case impact of currency and interest rate differential changes that could occur over a three day period. Since DAR considers the correlation between various market rates, it improves the accuracy of the measurement of the impact by emphasizing the effect of likely combinations of rate movements and discounting the effect of changes that are less likely to occur. Global limits for daylight and overnight DAR exposure are in place and are further controlled through sub-limits by currency. In addition, the notional amount of forward mismatches within different forward periods are subject to limits.

The application of the DAR methodology to interest rate risk is being utilized in some units which deal in derivative products. This methodology enhances the measurement of some of the more complex exposures.

The bank maintains separate limits on the market risks related to foreign exchange and interest rate options and structured transactions, which include barrier options, average rate options, compound options and spreadlocks. While the limits applied to these structured products are moderate in relation to global limits in place for the bank's major activities, they provide the bank with the capability to respond to client demands. These limits also enable the bank to broaden its range of products offered to larger, more sophisticated clients and to maintain its competitive position in the market.

Simulation models are used to measure market risk related to option products since these models incorporate movements in exchange rates, interest rates and expected volatilities, which are a measure of the variability of the rate or index underlying the contract, over a specific time period. The assumptions used in these simulation models are continually monitored and regularly updated as market conditions change.

Operational Risk

In addition to credit and market risk, the bank is exposed to operational risk as a result of its derivative activities. Operational risk is the potential for loss caused by a breakdown in procedures in

TABLE 22

CAPITAL FORMATION
For the year ended October 31
($ millions)

	1994	*1993*	*1992*	*1991*	*1990*
Internally generated capital					
Net income	**$1,169**	$300	$ 107	$ 983	$965
Amounts credited (charged) to retained earnings	4	(12)	4	(11)	3
Capital from operations	**1,173**	288	111	972	968
Dividends	(532)	(518)	(484)	(455)	(433)
	641	(230)	(373)	517	535
External financing					
Subordinated debentures	**35**	315	51	777	181
Preferred stock	**18**	654	(67)	515	(5)
Common stock	–	–	184	276	141
	53	969	168	1,568	317
Total increase (decrease) in capital	**$ 694**	$739	$(205)	$2,085	$852

any of the following processes: trading, transaction processing, risk management, reporting and legal documentation of derivative instruments. Exposure to operational risk is managed and controlled in a variety of ways.

Segregation of duties is maintained in all key aspects of derivative activities. Derivatives held for sales and trading activities are valued daily for profit monitoring and risk management purposes. In addition, the bank's internal audit staff regularly verifies compliance with credit and market risk limits and reviews all aspects of trading, transaction processing and reporting.

Systems are continually reviewed and enhanced to keep pace with the more complex exposures. The bank employs full off-site processing and trading systems back-up facilities to ensure the ongoing capability of key business functions under most circumstances.

The key areas of risk with respect to documentation are the legal uncertainty of the enforceability of netting agreements in any particular jurisdiction and the legal capability of a counterparty to enter into a transaction. A documentation committee has been formed within Treasury Division to analyze legal risks and related policies and procedures.

CAPITAL FUNDS

An important measure of strength for a financial institution is its capital base, as depositors, debenture holders, shareholders and clients derive confidence from the size and stability of an institution's capital. In recent years, regulators and rating agencies have directed a great deal of attention to financial institutions' capital levels.

With capital levels well in excess of regulatory requirements, Royal Bank has strong debt ratings, as reflected in senior debt ratings of Aa2 from Moody's and AA- from Standard & Poor's.

In managing its capital, the bank balances two major objectives – a strong level of capital and a high return to its shareholders. Decisions regarding capital are also based upon the expected asset growth, anticipated changes in the business mix to more or less capital-intensive activities, major investment plans, the terms of existing issues, and comparisons of the rates of existing issues with current and expected interest rates.

Capital consists of common shareholders' equity, which includes common shares and retained earnings, preferred shareholders' equity and subordinated debentures.

As shown on the balance sheet on page 37, at October 31, 1994, total capital was $12.1 billion, an increase of $694 million from a year ago. Higher retained earnings accounted for $641 million or 92% of the increase in capital. This brought common shareholders' equity to $6.3 billion at year-end 1994 from $5.7 billion a year ago. As a percentage of total assets, common shareholders' equity rose to 3.7% from 3.4% at October 31, 1993.

The preferred share balance increased by $18 million to $2.3 billion, as a weakening of the Canadian dollar led to a higher translated value of the bank's U.S. dollar-denominated preferred shares. The bank had $1.6 billion of non-cumulative preferred shares outstanding at October 31, 1994. These can be converted to common equity at various dates beginning in 1999, with the prior consent of regulators.

Subordinated debentures increased $35 million in 1994, due also to the weakening of the Canadian dollar.

As shown at the end of Note 11 on page 47, the bank paid out $532 million of dividends in 1994, up $14 million from 1993 due to higher dividends on preferred shares. This largely reflects a full year of dividend payments on over $600 million of outstanding preferred shares Series J and K which were issued in the second quarter of 1993.

Dividends on common shares were unchanged from last year, both on a total and per share basis.

The Bank Act forbids the payment of dividends if there are reasonable grounds for believing the bank is violating, or that the payment of dividends would cause the bank to violate, regulations regarding the maintenance of sufficient capital and adequate forms of liquidity. These requirements do not currently limit the payment of dividends on any of the bank's shares.

CAPITAL ADEQUACY GUIDELINES

A discussion of the Canadian regulatory risk-based capital adequacy guidelines, originally developed in 1988 by the Bank for International Settlements, is

TABLE 23

RISK-ADJUSTED ASSETS

As at October 31
($ millions)

On-balance sheet assets (1)	Balance sheet amount	Principal risk weight	Risk-adjusted balance 1994	1993
Cash and deposits with Bank of Canada	$ 1,187	0%	$ –	$ –
Deposits with other banks	15,262	20%	3,007	1,844
Securities issued or guaranteed by Canada, provinces, municipalities or other OECD countries	20,936	0%	85	89
Other securities	6,470	100%	5,538	4,461
Loans issued or guaranteed by Canada, provinces, municipalities or other OECD countries	5,806	0%	382	357
Mortgages	47,190	50%	19,795	20,367
Other loans	62,390	100%	54,083	56,762
Customers' liability under acceptances	6,205	100%	6,037	6,191
Other assets	7,303	100%	4,288	4,381
	$172,749		$93,215	$94,452

Off-balance sheet financial instruments (1) (2)	Contract amount	Credit – conversion factor	Credit – equivalent amount	Principal risk weight	Risk-adjusted balance 1994	1993
Credit instruments						
Guarantees and standby letters of credit:						
Financial	$ 5,191	100%	$ 5,191	100%	$ 5,080	$ 5,053
Non-financial	1,924	50%	962	100%	958	832
Securities lending	7,586	100%	7,586	100%	501	1,826
Documentary and commercial letters of credit	779	20%	156	100%	140	130
Commitments to extend credit:						
Original term to maturity of one year or less	87,131	0%	–	0%	–	–
Original term to maturity of more than one year	33,583	50%	16,792	100%	16,102	11,268
Note issuance/Revolving underwriting facilities	251	50%	125	100%	103	135
Total credit instruments	$136,445		$30,812		$22,884	$19,244

Derivatives	Contract amount	Credit – equivalent amount (3) Current	Potential	Total	Principal risk weight	Risk-adjusted balance 1994	1993
Interest rate contracts:							
Forward rate agreements	$ 97,208	$ 95	$ 4	$ 99	20%	$ 22	$ 15
Futures contracts (4)	53,797	–	–	–	0%	–	–
Swap contracts	273,296	3,234	799	4,033	20%	1,080	1,308
Options purchased (4)	29,892	301	90	391	20%	106	77
Options written (5)	29,758	–	–	–	0%	–	–
		3,630	893	4,523		1,208	1,400
Foreign exchange contracts:							
Spot and forward contracts	404,100	5,863	4,044	9,907	20%	2,169	1,373
Futures contracts (4)	605	–	–	–	0%	–	–
Swap contracts	16,530	1,020	736	1,756	20%	525	448
Options purchased (4)	20,265	302	210	512	20%	128	109
Options written (5)	21,263	–	–	–	0%	–	–
		7,185	4,990	12,175		2,822	1,930
Equity and commodity contracts	2,394	53	10	63	20%	29	17
Total derivatives		$10,868	$5,893	$16,761		$ 4,059	$ 3,347
Total off-balance sheet financial instruments				$47,573		$ 26,943	$ 22,591
Total risk-adjusted assets						$120,158	$117,043

(1) *Risk-adjusted assets include the on-balance sheet assets and off-balance sheet financial instruments of all subsidiaries except for insurance subsidiaries.*
(2) *Off-balance sheet financial instruments, except those relating to guarantees and standby letters of credit, are as at September 30.*
(3) *Credit-equivalent amounts for derivatives consist of (i) the total current replacement value of all outstanding contracts in a gain position, without factoring in the impact of master netting agreements, and (ii) an amount for potential exposure on the basis of the total contract amount split by remaining term to maturity, calculated in accordance with the capital adequacy requirements of the Superintendent of Financial Institutions Canada.*
(4) *Foreign currency and interest rate futures and some purchased options are traded on exchanges and are subject to daily margin requirements. Therefore, such instruments are deemed to have no additional credit risk.*
(5) *Written options represent obligations (rather than assets) of the bank and as such do not attract credit risk.*

TABLE 24

CAPITAL RATIOS

As at October 31
($ millions)

	1994	*1993*	*1992*	*1991*	*1990*
Tier 1 capital					
Common shareholders' equity	**$ 6,323**	$ 5,682	$ 5,912	$ 6,101	$5,308
Non-cumulative preferred shares	**1,609**	1,594	948	924	400
Non-controlling interest in subsidiaries	**93**	81	75	73	98
Less: goodwill (1)	**(365)**	(447)	(195)	(160)	(94)
	7,660	6,910	6,740	6,938	5,712
Tier 2 capital					
Permanent preferred shares and subordinated debentures	**1,063**	1,050	1,018	971	989
Non-permanent preferred shares and subordinated debentures (2)	**2,806**	2,980	2,728	2,780	1,827
Non-controlling interest in subsidiaries	**–**	5	–	–	–
Less: investment in associated corporations	**(4)**	(4)	(3)	(3)	(3)
	3,865	4,031	3,743	3,748	2,813
Total capital	**$11,525**	$10,941	$10,483	$10,686	$8,525
Risk-adjusted assets					
On-balance sheet assets	**$ 93,215**	$ 94,452	$ 91,927	$ 94,112	$ 92,513
Off-balance sheet financial instruments	**26,943**	22,591	22,371	19,863	22,522
Total risk-adjusted assets	**$120,158**	$117,043	$114,298	$113,975	$115,035
Tier 1 capital to risk-adjusted assets	**6.4%**	5.9%	5.9%	6.1%	5.0%
Tier 2 capital to risk-adjusted assets	**3.2%**	3.4%	3.3%	3.3%	2.4%
Total capital to risk-adjusted assets	**9.6%**	9.3%	9.2%	9.4%	7.4%
Common shareholders' equity to risk-adjusted assets	**5.3%**	4.9%	5.2%	5.4%	4.6%

(1) Goodwill existing before October 31, 1988 is deducted from Tier 1 capital in the following proportions: 1/3 in 1990, 2/3 in 1991 and in full in 1992 and thereafter.

(2) Preferred shares and subordinated debentures which are within five years of maturity are subject to straight-line amortization to zero during their remaining term and, accordingly, are included above at their amortized value.

provided below. Significant differences between the approaches used in Canada and in the United States are highlighted.

CALCULATION OF RISK-ADJUSTED ASSETS

As shown in Table 23 on page 34, risk-adjusted assets are determined by applying "risk weights" to both on-balance sheet and off-balance financial instruments. The "risk weights" depend on the relative credit risk of the counterparty and vary from 0% for claims on or guaranteed by the Canadian Government and other countries of the OECD to 100% for consumer and corporate loans. A risk weight of 50% is assigned to residential mortgages, which make up 38% of the bank's total loans.

Before risk-adjusted balances can be calculated for off-balance sheet instruments, they must be converted to credit-equivalent amounts. In the case of credit instruments such as guarantees, letters of credit and commitments to extend credit, the credit-equivalent amounts are calculated using "credit conversion factors" which depend upon the nature of the instrument and the original term to maturity. The calculation of the credit-equivalent amount for derivatives, which is the sum of the current credit exposure plus potential exposure, has been explained in the Derivatives section of the off-balance sheet activities discussion on page 30.

As shown at the bottom of Table 23 on page 34, total risk-adjusted assets at October 31, 1994 were $120.2 billion, up from $117.0 billion a year ago. Off-balance sheet instruments accounted for the increase, largely due to higher commitments to extend credit. Partially offsetting this was a $1.2 billion decline in the risk-adjusted amount for on-balance sheet assets, reflecting lower corporate loans.

REGULATORY CAPITAL REQUIREMENTS

There are two tiers of regulatory capital. Tier 1 capital consists of common shareholders' equity, non-cumulative perpetual preferred shares and non-controlling interest in subsidiaries, less goodwill.

Tier 2 capital comprises preferred shares other than those included in Tier 1 capital and subordinated debentures, less investments in associated corporations. Non-permanent preferred shares and subordinated debentures are limited to 50% of Tier 1 capital. In addition, Tier 2 capital cannot exceed Tier 1 capital.

Total capital is the sum of Tier 1 and Tier 2 capital. In Canada, banks are required to have a minimum Total capital ratio of 8%, with Tier 1 capital comprising at least half of Total capital.

At October 31, 1994, Royal Bank's Tier 1 and Total capital ratios were 6.4% and 9.6% respectively, up from 5.9% and 9.3% a year ago. These increases reflect internal capital generation in 1994.

Bank regulators in the United States, unlike in Canada, allow a portion of general provisions for credit losses, including those related to country risk, to be included in Tier 2 capital. In addition, cumulative permanent preferred shares are classified as Tier 1, not Tier 2, capital. Using the U.S. definition, the bank's Tier 1 and Total capital ratios would have been 6.5% and 10.0% respectively at year-end 1994.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Royal Bank of Canada were prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must of necessity be based on estimates and judgments. The financial statements were prepared in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, written policies and procedure manuals, a written corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which ensures that the bank and its employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of the bank's operations.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of the bank. This Committee reviews the consolidated financial statements of the bank and recommends them to the Board for approval. Other key responsibilities of the Audit Committee include reviewing the bank's existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. The bank's Compliance Officer and Chief Internal Auditor have full and unrestricted access to the Audit Committee.

The Superintendent of Financial Institutions Canada, at least once a year, makes such examination and enquiry into the affairs of the bank as he feels necessary to satisfy himself that the provisions of the Bank Act, having reference to the safety of the depositors and shareholders of the bank, are being duly observed and that the bank is in a sound financial condition.

Deloitte & Touche and Price Waterhouse, the independent auditors appointed by the shareholders of the bank upon the recommendation of the Audit Committee, have examined the financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the bank's financial reporting and the adequacy of the system of internal controls.

ALLAN R. TAYLOR
Chairman

JOHN E. CLEGHORN
President & Chief Executive Officer

J. EMILIEN BOLDUC
Vice-Chairman & Chief Financial Officer

Montreal, December 5, 1994

AUDITORS' REPORT

To the Shareholders of Royal Bank of Canada

We have audited the consolidated balance sheet of Royal Bank of Canada as at October 31, 1994 and the consolidated statements of income, changes in shareholders' equity and changes in financial position for the year then ended. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the bank as at October 31, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

The consolidated financial statements for the years ended October 31, 1993 and 1992 were audited by Deloitte & Touche and Peat Marwick Thorne who expressed an opinion thereon without reservation in their report dated December 6, 1993.

DELOITTE & TOUCHE
PRICE WATERHOUSE
Chartered Accountants

Montreal, December 5, 1994

CONSOLIDATED BALANCE SHEET

(in millions of dollars)	*October 31, 1994*	*October 31, 1993*
ASSETS		
Cash resources		
Cash and deposits with Bank of Canada	$ 1,187	$ 1,373
Deposits with other banks	15,262	9,501
	16,449	10,874
Securities *(note 3)*		
Investment account	15,677	14,330
Trading account	11,098	8,309
Loan substitute	920	1,372
	27,695	24,011
Loans *(note 4)*		
Residential mortgages	44,086	43,738
Consumer instalment, credit card and other personal loans	19,758	19,508
Business and government loans	51,542	53,223
	115,386	116,469
Other		
Customers' liability under acceptances	6,205	6,302
Premises and equipment *(note 6)*	1,975	2,057
Other assets *(note 7)*	5,369	5,228
	13,549	13,587
	$173,079	$164,941
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits *(note 8)*		
Consumers	$ 85,214	$ 84,696
Businesses and governments	36,422	33,781
Banks	14,179	11,922
	135,815	130,399
Acceptances	6,205	6,302
Other liabilities *(note 9)*	18,993	16,868
Subordinated debentures *(note 10)*	3,477	3,442
	164,490	157,011
Shareholders' equity		
Capital stock *(note 11)*		
Preferred	2,266	2,248
Common	2,910	2,910
Retained earnings	3,413	2,772
	8,589	7,930
	$173,079	$164,941

ALLAN R. TAYLOR
Chairman

JOHN E. CLEGHORN
President & Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

(in millions of dollars, except per share amounts)	*Year ended October 31, 1994*	*Year ended October 31, 1993*	*Year ended October 31, 1992*
Interest income			
Loans	$ 8,954	$8,175	$ 8,968
Securities	1,304	1,174	869
Deposits with banks	479	321	421
	10,737	9,670	10,258
Interest expense			
Deposits	5,521	4,923	5,832
Subordinated debentures	268	245	257
Other	280	109	79
	6,069	5,277	6,168
Net interest income	4,668	4,393	4,090
Provision for credit losses	820	1,750	2,050
	3,848	2,643	2,040
Other income			
Deposit and payment service charges	661	649	654
Capital market fees	567	456	356
Card service revenues	303	230	213
Foreign exchange revenue	279	285	293
Investment management and custodial fees	255	101	82
Mutual fund revenues	202	64	37
Other	430	312	306
	2,697	2,097	1,941
	6,545	4,740	3,981
Non-interest expenses			
Human resources	2,675	2,310	2,160
Occupancy	478	418	400
Equipment	460	396	377
Communications	469	392	387
Restructuring	–	410	130
Other	602	490	464
	4,684	4,416	3,918
Net income before income taxes	1,861	324	63
Income taxes *(note 12)*	655	(5)	(65)
Net income before non-controlling interest	1,206	329	128
Non-controlling interest in net income of subsidiaries	37	29	21
Net income	$ 1,169	$ 300	$ 107
Earnings (loss) per common share *(note 13)*	$ 3.19	$ 0.46	$ (0.05)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions of dollars)	*Year ended October 31, 1994*	*Year ended October 31, 1993*	*Year ended October 31, 1992*
Capital stock			
Balance at beginning of year	$5,158	$4,504	$4,387
Issue of preferred shares for cash *(note 11)*	–	612	–
Issue of common shares for cash *(note 11)*	–	–	184
Preferred shares redeemed and purchased for cancellation	–	–	(102)
Translation adjustment on shares issued in foreign currency	18	42	35
Balance at end of year	$5,176	$5,158	$4,504
Retained earnings			
Balance at beginning of year	$2,772	$3,002	$3,375
Net income	1,169	300	107
Dividends *(note 11)*	(532)	(518)	(484)
Expense of share issues, net of income taxes	–	(11)	–
Unrealized foreign currency translation gains and losses, net of hedging activities and related income taxes	4	(1)	4
Balance at end of year	$3,413	$2,772	$3,002
Shareholders' equity at end of year	$8,589	$7,930	$7,506

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(in millions of dollars)	*Year ended October 31, 1994*	*Year ended October 31, 1993*	*Year ended October 31, 1992*
Cash flows from operating activities			
Net income	$1,169	$ 300	$ 107
Adjustments to determine cash flows from operating activities:			
Provision for credit losses	820	1,750	2,050
Deferred income taxes *(note 12)*	183	(706)	(702)
Depreciation	335	277	279
Net changes in accrued interest receivable and payable	(414)	(267)	(236)
Other items, net	(310)	219	(110)
	1,783	1,573	1,388
Cash flows from financing activities			
Net increase in deposits	5,416	1,475	7,200
Net increase in obligations related to assets sold with recourse or under repurchase agreements	3,215	2,375	281
Issue of subordinated debentures *(note 10)*	–	110	–
Issue of preferred shares *(note 11)*	–	612	–
Preferred shares redeemed and purchased for cancellation	–	–	(102)
Issue of common shares *(note 11)*	–	–	184
Dividends *(note 11)*	(532)	(518)	(484)
Other items, net	(908)	1,846	(509)
	7,191	5,900	6,570
Cash flows from investing activities			
Net change in deposits with other banks	(5,761)	1,570	(1,989)
Net increase in securities	(3,061)	(5,950)	(2,703)
Net increase in loans	(292)	(5,241)	(3,843)
Net acquisitions of premises and equipment	(253)	(212)	(272)
Net increase in obligations related to securities sold short	207	1,734	978
Consideration paid for purchase of Royal Trust	–	(1,628)	–
	(9,160)	(9,727)	(7,829)
Net change in Cash and deposits with Bank of Canada	(186)	(2,254)	129
Cash and deposits with Bank of Canada, at beginning of year	1,373	1,516	1,387
Royal Trust – Cash and deposits with Bank of Canada, at date of acquisition	–	2,111	–
Cash and deposits with Bank of Canada, at end of year	$1,187	$1,373	$1,516

1. SIGNIFICANT ACCOUNTING POLICIES

Pursuant to the Bank Act, the consolidated financial statements of Royal Bank of Canada are prepared in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

The significant accounting policies followed in the preparation of these financial statements are summarized below.

Basis of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. The bank accounts for the acquisition of subsidiaries using the purchase method; any difference between the cost of the investment and the fair value of the net assets acquired is amortized over appropriate periods of up to 15 years.

The equity method is used to account for investments in associated corporations, which are corporations in which the bank holds at least a 20% interest but does not exercise control. The bank's share of earnings of these associated corporations and gains and losses realized on dispositions of investments in associated corporations are included in income from securities.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at prevailing quarter-end rates.

Unrealized foreign currency translation gains and losses (net of hedging activities and related income taxes) on investments in foreign branches, subsidiaries and associated corporations are recorded in Retained Earnings. On disposal of such investments, the accumulated net translation gain or loss is included in income. Other foreign currency translation gains and losses (net of hedging activities) are included in income.

Securities

Securities comprise investment account and trading account securities as well as loan substitute securities. Obligations related to securities sold short or under repurchase agreements are included in "Other liabilities".

INVESTMENT ACCOUNT SECURITIES are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. Equity securities are stated at cost and debt securities at amortized cost. Premiums and discounts on debt securities are amortized to interest income from securities using the yield method over the period to maturity of the related securities. Gains and losses realized on disposal of securities, which are calculated on an average cost basis, and write-downs to reflect other than temporary impairment in value are included in interest income from securities.

TRADING ACCOUNT SECURITIES, which are purchased for resale over a short period of time, are stated at estimated current market value. Gains and losses realized on disposal, and unrealized valuation adjustments, are included in interest income from securities in the period in which they occur.

LOAN SUBSTITUTE SECURITIES are customer financings which have been structured as after-tax investments rather than conventional loans in order to provide the issuers with a borrowing rate advantage. Such securities are accorded the accounting treatment applicable to Loans.

Loans

Loans are stated net of an allowance for credit losses and unearned income, which is comprised of unearned interest and unamortized loan fees.

NON-ACCRUAL LOANS are those placed on a cash basis because there is reasonable doubt regarding the collectibility of principal or interest. Whenever a payment is 90 days past due, loans other than credit card balances are automatically placed on a non-accrual basis unless they are well secured and in the process of collection. All loans are classified on a non-accrual basis when a payment is 180 days in arrears. Upon classification of a loan to a non-accrual basis, any previously accrued but unpaid interest thereon is reversed against income of the current period. In subsequent periods, interest received on non-accrual loans is recorded as income only if management has determined that the loan does not require a specific provision for loss; otherwise interest received is credited to principal. Non-accrual loans are restored to an accrual basis when principal and interest payments are current and there is no longer any reasonable doubt regarding collectibility. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis as long as there is no reasonable doubt regarding the collectibility of principal and interest, and payments are not 90 days past due.

COLLATERAL is obtained if, based on an evaluation of the customer's credit-worthiness, it is considered necessary for the customer's overall borrowing facility. Collateral would normally be in the form of assets such as cash, government securities, shares, accounts receivable, inventory, or fixed assets.

CAPITALIZATION OF INTEREST occurs only when this forms part of the terms of credit and management has determined that the collectibility of both principal and interest is not reasonably in doubt.

ASSETS ACQUIRED IN SATISFACTION OF A PROBLEM LOAN are recorded at the lesser of fair value at the date of transfer or the carrying value of the loan. Any excess of the carrying value of the loan over the fair value of the assets acquired is written off. Operating results and gains and losses on disposal of these assets are treated as loan write-offs or recoveries.

FEES which relate to such activities as originating, restructuring or renegotiating loans are recognized as "Interest income" over the expected term of such loans. Where there is a reasonable expectation that a loan will result, commitment and standby fees are also recognized as "Interest income" over the expected term of the resulting loan. Otherwise, such fees are recognized as "Other income" over the commitment or standby period.

Allowance for Credit Losses

The allowance for credit losses is maintained in an amount considered adequate to absorb anticipated credit-related losses. Credit losses arise primarily from loans but also derive from deposits with other banks, derivatives, loan substitute securities and other credit instruments such as acceptances, guarantees and letters of credit. The allowance is increased by provisions for credit losses which are charged to income, and reduced by write-offs net of recoveries and by losses realized on sales and exchanges of loans to less developed countries (LDCs).

SPECIFIC PROVISIONS are established on an individual facility basis to recognize credit losses on most types of exposure. For consumer instalment loans, an aggregate provision is recorded by reference to historical ratios of write-offs to balances outstanding. For credit card balances, no provisions are recorded; instead, balances are written off when no payment has been received for 180 days.

A COUNTRY RISK PROVISION is made in respect of aggregate exposure in a number of LDCs based on an overall assessment of the underlying economic conditions in those countries.

GENERAL PROVISIONS are established to absorb credit losses attributable to the deterioration of credit quality on aggregate exposures including those in particular industries or geographic regions (excluding LDCs), for which specific provisions cannot yet be determined.

WRITE-OFFS are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote.

LOSSES REALIZED ON SALES AND EXCHANGES OF LDC LOANS represent the excess of the face value of the loans given up over the cash and/or the fair value of the loans or securities received.

Acceptances

The potential liability under acceptances is reported as a liability in the balance sheet. The recourse against the customer in the case of a call on these commitments is reported as an offsetting asset of the same amount.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally on the straight-line basis over the estimated useful lives as indicated herein. Gains and losses on disposal are recorded in "Other income".

Buildings	25 to 50 years
Computer equipment	3 to 10 years
Furniture, fixtures and other equipment	7 to 10 years
Leasehold improvements	term of lease plus first option period

Income Taxes

The tax allocation basis of accounting is followed, under which income taxes on specific transactions are recorded in the periods in which the transactions are recognized for accounting purposes regardless of when the transactions are recognized for tax purposes. Income taxes comprise amounts applicable to income included in the Statement of Income and to items charged or credited to Retained Earnings.

Deferred income taxes accumulated as a result of timing differences are included either in "Other assets" or "Other liabilities" as applicable. In addition, the Statement of Income contains items which are non-taxable or non-deductible for income tax purposes and accordingly cause the income tax provision to be different than it would be if based on statutory rates.

Derivatives

Derivatives are used in sales and trading activities to provide clients with the ability to manage their market risk exposures. Derivatives are also used to manage the bank's own exposures to interest, currency and other market risks. The most frequently used derivative products are foreign exchange forward contracts, interest rate and currency swaps, foreign currency and interest rate futures, forward rate agreements and foreign currency and interest rate options.

When used in sales and trading activities, derivatives are marked to market and the resultant gains and losses are recognized in "Other income" immediately, except where the portfolio is primarily comprised of instruments with initial terms of more than two years. In the latter case, a portion of the mark to market gain is deferred and amortized to "Other income" over the life of the instruments to cover related credit risk and administrative expenses. Market values are determined using pricing models which incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. Unrealized gains and losses on portfolios of derivatives are netted and reported in "Other assets" or "Other liabilities".

Gains and losses on derivatives which the bank enters into for purposes of hedging its own risk exposures are generally deferred and amortized over the lives of the hedged assets or liabilities as adjustments to interest income or interest expense.

Postretirement Benefits

The bank maintains a defined benefit pension plan which is available to substantially all employees after two years service or at age 25, on a contributory or a non-contributory basis. The plan provides pensions based on years of service and contributions, and average earnings at retirement. Employees of subsidiaries of the bank are generally covered by separate pension plans which offer comparable benefits. It is the bank's funding policy to annually contribute to its pension funds the actuarially determined amounts needed to satisfy employee benefit laws. Investments held by the pension funds are comprised primarily of equity securities, government and corporate bonds and debentures, mortgages, and money market instruments.

Actuarial valuations are performed each year to determine the present value of the accrued pension benefits, based on projections of employees' compensation levels to the time of retirement. Pension fund assets are carried at adjusted market values.

Pension expense consists of the aggregate of (a) the actuarially computed cost of pension benefits provided in respect of the current year's service, (b) imputed interest on the funding excess or deficiency of the plan and (c) the amortization over the expected average remaining service life of employees of the funding excess existing at the date the current accounting policy commenced, experience gains and losses, and amounts arising as a result of changes in assumptions and plan amendments.

The cumulative excess of pension fund contributions over the amounts recorded as expense is included in "Other assets".

The bank also provides health and dental care benefits and life insurance coverage to employees who retire after ten years service and to their dependents. Costs of providing these benefits are charged to income as expenditures are incurred.

2. DOMESTIC AND INTERNATIONAL OPERATIONS

The bank considers its Domestic Operations to include all business transacted in Canada, regardless of currency, with the exception of the Canadian-based activities of the international money market units. These units' activities, together with the bank's business carried on outside Canada, comprise International Operations.

While it is not practicable to make a definitive division of the bank's Domestic and International Operations, appropriate allocations are made for (a) the cost of funds related to liquidity and capital computed on the basis of marginal costs of funds and (b) corporate non-interest expenses.

	Domestic			*International*			*Total*		
	1994	*1993*	*1992*	*1994*	*1993*	*1992*	*1994*	*1993*	*1992*
Net interest income – taxable equivalent basis	$3,980	$3,647	$3,518	$ 737	$ 807	$ 637	$4,717	$4,454	$4,155
Deduct: Taxable equivalent adjustment*	48	60	63	1	1	2	49	61	65
Net interest income – financial statement basis	3,932	3,587	3,455	736	806	635	4,668	4,393	4,090
Provision for credit losses	786	1,839	2,203	34	(89)	(153)	820	1,750	2,050
	3,146	1,748	1,252	702	895	788	3,848	2,643	2,040
Other income	2,160	1,648	1,538	537	449	403	2,697	2,097	1,941
	5,306	3,396	2,790	1,239	1,344	1,191	6,545	4,740	3,981
Non-interest expenses**	4,060	3,897	3,343	624	519	575	4,684	4,416	3,918
	1,246	(501)	(553)	615	825	616	1,861	324	63
Income taxes	493	(273)	(284)	162	268	219	655	(5)	(65)
	753	(228)	(269)	453	557	397	1,206	329	128
Non-controlling interest in net income of subsidiaries	35	27	19	2	2	2	37	29	21
Net income (loss)	$ 718	$ (255)	$ (288)	$ 451	$ 555	$ 395	$1,169	$ 300	$ 107
Average total assets	$134,100	$112,800	$108,500	$32,600	$29,700	$27,700	$166,700	$142,500	$136,200

**The taxable equivalent adjustment represents a credit to interest income in order to gross up the tax-exempt income earned on certain securities (primarily loan substitute securities) to an amount which, had it been taxable at a rate of 42.4% (1993 – 42.4%; 1992 – 41.9%), would result in the same after-tax net income as appears in the financial statements. The gross-up of such income to a taxable equivalent basis permits a uniform measurement and comparison of net interest income.*

***Non-interest expenses of 1993 include restructuring costs of $410 million relating to rationalization of activities and employee reductions throughout the Royal Bank group. Of this amount, $300 million relates to the integration of Royal Trust and $110 million (1992 – $130 million) relates to a further downsizing of the bank itself. (On September 1, 1993, the bank acquired 100% of the shares of certain operating subsidiaries of Gentra Inc., including The Royal Trust Company and Royal Trust Corporation of Canada. This acquisition was accounted for using the purchase method.)*

3. SECURITIES

	Maturity					*1994*		*1993*	
	Within 1 year	*1 to 3 years*	*3 to 5 years*	*5 to 10 years*	*Over 10 years*	*Carrying amount*	*Estimated market value*	*Carrying amount*	*Estimated market value*
Investment account									
Canadian government debt*	$ 5,696	$2,486	$1,798	$ 558	$ 104	$10,642	$10,456	$9,958	$10,092
Foreign OECD government debt	809	320	250	859	183	2,421	2,399	1,705	1,701
Other debt	597	587	307	78	40	1,609	1,531	2,142	2,153
Bonds of less developed countries**	–	–	–	–	829	829	829	357	386
Equity***	9	–	–	–	163	172	186	164	180
Securities of associated corporations***	–	–	–	–	4	4	4	4	4
	7,111	3,393	2,355	1,495	1,323	15,677	15,405	14,330	14,516
Trading account									
Canadian government debt*	3,693	1,914	684	1,058	396	7,745	7,745	5,800	5,800
Foreign OECD government debt	17	38	37	52	27	171	171	108	108
Other debt	2,065	174	110	164	136	2,649	2,649	1,986	1,986
Equity***	–	–	–	–	533	533	533	415	415
	5,775	2,126	831	1,274	1,092	11,098	11,098	8,309	8,309
Loan substitute	361	151	186	50	172	920	920	1,372	1,372
	$13,247	$5,670	$3,372	$2,819	$2,587	$27,695	$27,423	$24,011	$24,197

**Canadian government debt is comprised of securities issued or guaranteed by Canadian federal, provincial or municipal governments.*

***These securities include restructured collateralized bonds of less developed countries, net of a country risk provision of $643 million (1993 – $69 million).*

****Equity securities, which have no stated term, have been classified under the "Over 10 years" column.*

4. LOANS

	1994	1993
Domestic*		
Residential mortgages	$ 43,548	$ 43,220
Consumer instalment, credit card and other personal loans	19,299	19,180
Business and government loans	37,906	40,780
	100,753	103,180
Allowance for credit losses	(2,000)	(2,893)
	98,753	100,287
United States*		
Business and government loans	6,868	6,492
Allowance for credit losses	(91)	(118)
	6,777	6,374
International*		
Residential mortgages	561	561
Consumer instalment and other personal loans	530	397
Business and government loans	9,233	10,094
	10,324	11,052
Allowance for credit losses	(468)	(1,244)
	9,856	9,808
Total**	$115,386	$116,469

**Domestic loans include all loans booked in Canada, regardless of currency, with the exception of those of the Canadian-based international money market units. United States loans include all loans booked in the United States plus a portion of the loans of the Canadian-based international money market units. The remaining loans of these units, together with loans booked outside Canada and the United States, comprise International loans.*

***Loans are reported net of unearned income of $237 million (1993 – $265 million).*

	1994	1993
Non-accrual loans (included above)		
Domestic	$3,784	$5,570
United States	236	221
International, excluding LDC loans	334	444
LDC loans	70	1,347
	4,424	7,582
Allowance for credit losses*	(2,331)	(4,324)
Total net non-accrual loans	$2,093	$3,258

**The allowance for credit losses in 1994 is shown net of that portion of the country risk provision that is in excess of non-accrual LDC loans.*

5. ALLOWANCE FOR CREDIT LOSSES

			1994	1993
	Domestic	*International*	*Total*	*Total*
Balance at beginning of year	$2,893	$1,431	$4,324	$3,575
Provision for credit losses	786	34	820	1,750
Write-offs	(1,777)	(109)	(1,886)	(1,213)
Recoveries	88	–	88	116
Royal Trust – balance at date of acquisition	–	–	–	120
Losses realized on sales and exchanges of LDC loans	–	(181)	(181)	(90)
Transfers and translation adjustments on provisions denominated in foreign currencies	10	27	37	66
Balance at end of year	$2,000	$1,202	$3,202	$4,324
Consisting of:				
Specific provisions	$1,700	$ 262	$1,962	$2,667
Country risk provision*	–	940	940	1,107
General provisions	300	–	300	550
Total	$2,000	$1,202	$3,202	$4,324

**The country risk provision includes an amount of $643 million (1993 – $69 million) which has been deducted from securities in respect of restructured collateralized bonds of less developed countries.*

6. PREMISES AND EQUIPMENT

			1994	1993
	Cost	*Accumulated depreciation*	*Net book value*	*Net book value*
Land	$ 214	$ –	$ 214	$ 213
Buildings	1,074	333	741	761
Computer equipment	1,314	864	450	443
Furniture, fixtures and other equipment	922	588	334	384
Leasehold improvements	561	325	236	256
	$4,085	$2,110	$1,975	$2,057

7. OTHER ASSETS

	1994	*1993*
Deferred income taxes	$1,608	$1,620
Assets sold with recourse	1,171	764
Accrued interest	1,049	955
Goodwill	365	447
Cumulative excess of pension fund contributions over the amounts recorded as expense	218	167
Amounts receivable from brokers, dealers and clients	85	309
Other items, including accounts receivable and prepaid expenses	873	966
	$5,369	$5,228

8. DEPOSITS

				1994	1993
	Payable on demand	*Payable after notice*	*Payable on a fixed date*	*Total*	*Total*
Domestic*					
Consumers	$ 2,801	$26,896	$50,307	$ 80,004	$ 79,751
Businesses and governments	7,445	8,153	9,146	24,744	22,676
Banks	724	5	622	1,351	1,328
	10,970	35,054	60,075	106,099	103,755
International*					
Consumers	441	903	3,866	5,210	4,945
Businesses and governments	1,499	594	9,585	11,678	11,105
Banks	299	380	12,149	12,828	10,594
	2,239	1,877	25,600	29,716	26,644
	$13,209	$36,931	$85,675	$135,815	$130,399

**Domestic deposits include all deposits booked in Canada, regardless of currency, with the exception of those of the Canadian-based international money market units. The deposits of these units, together with deposits booked outside Canada, comprise International deposits.*

9. OTHER LIABILITIES

	1994	1993
Obligations related to securities sold short	**$ 5,569**	$ 5,362
Obligations related to assets sold under repurchase agreements	**5,341**	2,533
Secured liabilities of subsidiaries other than deposits	**2,247**	3,087
Accrued interest	**1,749**	2,069
Obligations related to assets sold with recourse	**1,171**	764
Cheques and other items in transit, net	**600**	323
Amounts payable to brokers, dealers and clients	**365**	679
Dividends payable	**123**	123
Non-controlling interest in subsidiaries	**93**	86
Other items, including accounts payable and accrued expenses	**1,735**	1,842
	$18,993	$16,868

10. SUBORDINATED DEBENTURES

The debentures are unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors.

Maturity	*Rate*			*Denominated in $U.S.*	*1994*	*1993*
Royal Bank of Canada (1)						
June 1, 1998	10.80%			–	**$ 200**	$ 200
September 30, 1998		(2)		100	**135**	132
January 15, 1999	10.90%			–	**250**	250
October 14, 1999	10.20%			–	**250**	250
July 1, 2000	11.00%			–	**200**	200
January 31, 2001	11.75%			–	**200**	200
August 15, 2001		(3)		219	**296**	289
January 11, 2002	11.00%			–	**300**	300
March 1, 2002	10.50%			–	**250**	250
July 5, 2005		(4)	Callable	350	**474**	462
June 8, 2023	9.30%			–	**110**	110
October 1, 2083		(5)	Callable	–	**250**	250
June 6, 2085		(6)	Callable	300	**406**	396
Royal Trust Corporation of Canada						
November 9, 1998		(7)		50	**68**	67
January 27, 1999		(8)		65	**88**	86
					$3,477	$3,442

(1) Effective November 14, 1994, the bank issued $200 million of debentures maturing November 14, 2014 and bearing interest at a rate of 10%.
(2) The September 30, 1998 debentures bear interest at a rate of 0.08% above the six-month LIBOR.
(3) The August 15, 2001 debentures, issued in Canadian dollars and bearing interest at a rate of 10.75%, were swapped at their issue date into a U.S. dollar obligation bearing interest at a rate of 0.215% above the three-month LIBOR.
(4) The July 5, 2005 debentures bear interest at a rate of 0.0625% above the three-month LIBOR.
(5) The October 1, 2083 debentures bear interest at a rate of 0.40% above the 30-day Bankers' Acceptance rate reported by the Bank of Canada.
(6) The June 6, 2085 debentures bear interest at a rate equal to 0.25% above the three-month LIMEAN. In the event of a reduction of the annual dividend declared by the bank on its Common Shares, the interest payable on the debentures is reduced pro-rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of Common Shares.
(7) The November 9, 1998 debentures, issued in Yen and bearing interest at 7.7% payable in Australian dollars, were swapped at their issue date into a U.S. dollar obligation bearing interest at a rate of 0.2% above the six-month LIBOR.
(8) The January 27, 1999 debentures, issued in Yen and bearing interest at 7.5% payable in Australian dollars, were swapped at their issue date into a U.S. dollar obligation bearing interest at a rate of 0.08% above the six-month LIBOR.

Repayment schedule

The aggregate sinking fund requirements and maturities of the debentures assuming the earliest possible dates of maturity under the terms of issue are as follows:

Within 1 year	$ –
From 1 to 5 years	991
From 5 to 10 years	1,246
Over 10 years	1,240
	$3,477

11. CAPITAL STOCK

Authorized capital stock

Preferred – An unlimited number of First Preferred Shares and Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares may be issued shall not exceed $5 billion in each case.

Common – An unlimited number of shares without nominal or par value provided that the aggregate consideration for which all common shares may be issued shall not exceed $10 billion.

Outstanding capital stock	*1994*		*1993*		*1992*	
	Number of shares (in thousands)	*Amount*	*Number of shares (in thousands)*	*Amount*	*Number of shares (in thousands)*	*Amount*
Preferred (1)						
$1.45 Cumulative Redeemable Series B (2)	13,600	$ 272	13,600	$ 272	13,600	$ 272
Cumulative Redeemable Series C (3)	1,000	100	1,000	100	1,000	100
U.S.$ Cumulative Redeemable Series D (3)	1,000	135	1,000	132	1,000	124
Cumulative Redeemable Series E (4)	1,500	150	1,500	150	1,500	150
Non-cumulative Series F (5)	6,000	150	6,000	150	6,000	150
Non-cumulative Series G (6)	10,000	250	10,000	250	10,000	250
Non-cumulative Series H (7)	12,000	300	12,000	300	12,000	300
U.S.$ Non-cumulative Series I (8)	8,000	271	8,000	264	8,000	248
Non-cumulative Series J (9)	12,000	300	12,000	300	–	–
U.S.$ Non-cumulative Series K (10)	10,000	338	10,000	330	–	–
Total outstanding preferred stock		2,266		2,248		1,594
Common (11)						
Outstanding at beginning of year	314,155	2,910	314,155	2,910	306,460	2,726
Issued under the Shareholder Dividend and Share Purchase Plan	–	–	–	–	7,695	184
Total outstanding common stock	314,155	2,910	314,155	2,910	314,155	2,910
Total outstanding capital stock		$5,176		$5,158		$4,504

(1) All redemption and purchase for cancellation options on preferred shares are subject to the consent of the Superintendent of Financial Institutions Canada. First Preferred Shares Series F, G, H and J are redeemable by the bank on and after the dates specified below (i) in cash, at a price per share of $25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing $25 by 95% of the average market price of the Common Shares at such time. On and after the dates specified below, subject to the right of the bank to redeem or to find substitute purchasers, each share of the First Preferred Shares Series G, H and J will be convertible quarterly at the option of the holder into that number of Common Shares determined by dividing $25 by 95% of the average market price of the Common Shares at such time. First Preferred Shares Series I and K are redeemable by the bank on and after the dates specified below (i) in cash, at a price per share of U.S.$25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing U.S.$25 by the U.S. dollar equivalent of 95% of the average market price of the Common Shares at such time. On and after the date specified below, subject to the right of the bank to redeem or to find substitute purchasers, each such share will be convertible quarterly at the option of the holder into that number of Common Shares determined by dividing U.S.$25 by the U.S. dollar equivalent of 95% of the average market price of the Common Shares at such time.

(2) The bank has the option to redeem the **First Preferred Shares Series B** at $20 per share. The bank may at any time purchase for cancellation such shares at a price per share not exceeding $20.

(3) The dividends on the **First Preferred Shares Series C and D** are determined quarterly by applying to Cdn.$100 and U.S.$100, respectively, the greater of (i) 6.67% per annum and (ii) ⅔ of the bank's average Canadian and U.S. prime rates respectively for stated periods. Such shares are redeemable by the bank at a price per share of Cdn.$100 and U.S.$100, respectively. The bank may at any time purchase for cancellation such shares at a price per share not exceeding Cdn.$100 and U.S.$100, respectively.

(4) The dividend on the **First Preferred Shares Series E** is payable monthly and (i) floats in relation to changes in the bank's Canadian prime rate and (ii) is adjusted upwards or downwards based on changes in market trading value. The annual dividend rate applicable to any month will in no event be less than 55% or greater than 75% of the average prime rate. Such shares are redeemable at a price per share of $100 and the bank may at any time purchase for cancellation such shares at a price per share not exceeding $100.

(5) The dividend on the **First Preferred Shares Series F** is payable quarterly at a rate equal to the greater of (i) $0.5625 per share and (ii) 81.522% of the dividend per Common Share for the same quarter. Such shares are not redeemable by the bank prior to October 31, 1999, but thereafter are redeemable as discussed in footnote (1) above.

(6) The dividend on the **First Preferred Shares Series G** is payable quarterly at a rate of $0.53125 per share until October 31, 1999 and thereafter is payable quarterly at a rate equal to the greater of (i) $0.53125 per share and (ii) 81.522% of the dividend per Common Share for the same quarter. Such shares are not redeemable by the bank prior to October 31, 1999, but thereafter are redeemable as discussed in footnote (1) above. On and after October 31, 2000, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(7) The dividend on the **First Preferred Shares Series H** is payable quarterly at a rate of $0.5625 per share. Such shares are not redeemable by the bank prior to August 24, 2001, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2001, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(8) The dividend on the **First Preferred Shares Series I** is payable quarterly at a rate of U.S.$0.4766 per share. Such shares are not redeemable by the bank prior to November 24, 2001, but thereafter are redeemable as discussed in footnote (1) above. On and after February 24, 2002, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(9) The dividend on the **First Preferred Shares Series J** is payable quarterly at a rate of $0.44375 per share. Such shares are not redeemable by the bank prior to May 24, 2003, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2003, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(10) The dividend on the **First Preferred Shares Series K** is payable quarterly at a rate of U.S.$0.39375 per share. Such shares are not redeemable by the bank prior to May 24, 2003, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2003, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(11) During 1994, the bank introduced a stock option plan for certain key executives. Under this plan, options will periodically be granted to purchase Common Shares at prices not less than the market price of such shares immediately prior to the grant date. The options are exercisable for periods not exceeding ten years. As at October 31, 1994, 10,000,000 shares were authorized for issuance under the plan. Options were granted during 1994 for the purchase of 201,600 Common Shares at an exercise price of $30.48 per share, none of which were exercised during 1994.

Dividends declared	*Total*			*Per share*				
	1994	*1993*	*1992*	*1994*	*1993*	*1992*	*1991*	*1990*
First Preferred								
Series B	$ 20	$ 20	$ 20	**$1.45**	$1.45	$1.45	$1.45	$1.45
Series C	7	7	7	**$6.67**	$6.67	$6.67	$7.57	$9.41
Series D	9	8	8	**US$6.67**	US$6.67	US$6.67	US$6.67	US$6.76
Series E	7	7	8	**$4.84**	$4.84	$5.68	$8.18	$10.60
Series F	14	14	14	**$2.25**	$2.25	$2.25	$2.25	$2.25
Series G	21	21	21	**$2.13**	$2.13	$2.13	$2.13	$2.13
Series H	27	27	27	**$2.25**	$2.25	$2.25	$0.85	–
Series I	21	19	18	**US$1.91**	US$1.91	US$1.91	US$0.28	–
Series J	21	16	–	**$1.78**	$1.32	–	–	–
Series K	21	15	–	**US$1.58**	US$1.17	–	–	–
	168	154	123					
Common	364	364	361	**$1.16**	$1.16	$1.16	$1.16	$1.16
	$532	$518	$484					

12. INCOME TAXES

	1994	*1993*	*1992*
Income taxes are reported in the financial statements as follows:			
Statement of Income	**$655**	$ (5)	$ (65)
Statement of Retained Earnings			
Expense of share issues	–	(8)	–
Unrealized foreign currency translation gains and losses, net of hedging activities	**(95)**	(82)	(128)
Total income taxes	**$560**	$ (95)	$(193)
The current and deferred income taxes are as follows:			
Current income taxes	**$377**	$ 611	$ 509
Deferred income taxes	**183**	(706)	(702)
Total income taxes	**$560**	$ (95)	$(193)
Income taxes in the Statement of Income vary from the amount that would be computed by applying the composite federal and provincial statutory income tax rate of 42.4% (1993 – 42.4%; 1992 – 41.9%) for the following reasons:			
Income taxes at statutory rate	**$789**	$ 137	$ 26
Increase (decrease) in income taxes resulting from:			
Lower average tax rate applicable to subsidiaries	**(101)**	(105)	(86)
Tax-exempt income from securities, primarily loan substitute securities	**(28)**	(35)	(37)
Other, net	**(5)**	(2)	32
	$655	$ (5)	$ (65)

13. EARNINGS PER SHARE

Earnings per share has been calculated after deducting preferred dividends of $168 million (1993 – $154 million; 1992 – $123 million) and has been based on the average number of Common Shares outstanding for the year of 314,154,963 (1993 – 314,154,963; 1992 – 310,543,144).

14. POSTRETIREMENT BENEFITS

	1994	*1993*	*1992*
The estimated funding excess of the bank's principal pension plans as at October 31 is determined as follows:			
Pension fund assets, at adjusted market values	**$2,531**	$2,381	$1,968
Actuarially computed present value of accrued pension benefits	**2,281**	2,102	1,840
Funding excess	**$ 250**	$ 279	$ 128

Pension expense included in the Statement of Income for the year ended October 31, 1994 was $44 million (1993 – $38 million; 1992 – $34 million). Postretirement health and dental care and life insurance benefits expense was $5 million in 1994 (1993 – $7 million; 1992 – $5 million).

15. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

	1994	1993
Financial instruments with contractual amounts representing credit risk		
Guarantees and standby letters of credit	$ 7,115	$ 6,825
Securities lending	7,586	4,664
Documentary and commercial letters of credit	779	737
Commitments to extend credit:		
Original term to maturity of one year or less	87,131	44,503
Original term to maturity of more than one year	33,583	23,690
Note issuance/Revolving underwriting facilities	251	312

Derivatives	*Notional amounts maturing in*						*Current credit exposure*	
	Under 1 year	*1 to 3 years*	*3 to 5 years*	*Over 5 years*	*1994 Total*	*1993 Total*	*1994*	*1993*
Interest rate contracts								
Forward rate agreements	$ 96,492	$ 716	$ –	$ –	$ 97,208	$ 69,516	$ 95	$ 49
Futures contracts	32,838	17,727	3,056	176	53,797	50,900	–	–
Swap contracts	113,570	95,754	47,129	16,843	273,296	205,722	3,234	3,835
Options purchased	11,892	13,803	3,630	567	29,892	38,968	301	191
Options written	13,096	13,549	2,563	550	29,758	34,453	–	–
							3,630	4,075
Foreign exchange contracts								
Spot and forward contracts	395,840	6,951	1,216	93	404,100	287,725	5,863	3,650
Futures contracts	605	–	–	–	605	371	–	–
Swap contracts	2,263	5,146	5,802	3,319	16,530	17,049	1,020	950
Options purchased	20,077	188	–	–	20,265	17,640	302	191
Options written	21,051	212	–	–	21,263	18,029	–	–
							7,185	4,791
Equity and commodity contracts	1,567	755	72	–	2,394	2,339	53	53
Total derivatives							$10,868	$8,919

The above amounts, except for those relating to guarantees and letters of credit, are as at September 30.

Financial instruments with contractual amounts representing credit risk

The primary purpose of these instruments is to ensure that funds are available to a customer as required. The bank's policy for requiring collateral security with respect to these instruments and the types of collateral security held are generally the same as for loans, as described in Note 1.

Guarantees and standby letters of credit, which represent irrevocable assurances that the bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the bank on behalf of a customer authorizing a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the bank does not generally expect the third party to draw funds under the agreement.

In securities lending transactions, the bank acts as an agent for the owner of a security, who agrees to lend the security to a borrower for a fee, under the terms of a pre-arranged contract. The borrower must fully collateralize the security loan at all times. The bank has two types of securities lending arrangements; lending with and without credit or market risk indemnification. In securities lending without indemnification, the bank bears no risk of loss. For transactions in which the bank provides an indemnification, risk of loss occurs if the borrower defaults and the value of the collateral declines concurrently. The credit risk associated with these transactions is considered small as borrowers must meet specific credit standards and must fully collateralize the security loan on a daily basis.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results first from the possibility of unused portions of loan authorizations being drawn by the customer and, second, from these drawings subsequently not being repaid as due. The bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Revolving underwriting facilities are arrangements whereby a customer issues short-term notes supported by an undertaking by the bank that if the customer is unable to issue the notes at a predetermined price, the bank will buy them at a prescribed price or guarantee the availability of funds by providing standby credit. Note issuance facilities are similar to revolving underwriting facilities, except that the bank underwrites on a "best efforts basis" and is not obligated to buy unsold notes or provide standby credit. The risks associated with note issuance facilities and revolving underwriting facilities are comparable to those of longer-term commitments to extend credit.

Derivatives

The bank deals in interest rate, foreign exchange and equity and commodity derivatives to earn fees and generate trading revenues and also utilizes derivatives to manage its own asset/liability exposures.

The table on the previous page provides the notional principal amounts of the bank's derivatives. Notional amounts are used to calculate payments and are a common measure of business volume, however, they are not indicative of credit or market risk exposure.

Current credit exposure is limited to the amount of loss that the bank would suffer if every counterparty to which the bank was exposed were to default at once (i.e. the current replacement value of all outstanding contracts in a gain position). These amounts, detailed on the table on the previous page, do not consider the value of any collateral and are presented without giving effect to any possible reduction due to master netting agreements. Credit exposure is managed as part of the overall borrowing limits granted to customers. The bank attempts to limit its credit exposure by dealing with counterparties believed to be creditworthy, encouraging counterparties to enter into master netting agreements and obtaining collateral where appropriate.

Market risk is the risk to earnings that arises from movements in interest rates, foreign exchange rates, equity prices or commodity prices. The bank manages its exposure to market risks through the use of risk limits and by entering into offsetting transactions.

Interest Rate Contracts include interest rate swaps, interest rate futures, forward rate agreements and interest rate options.

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional principal amount for a predetermined period based on agreed-upon fixed and floating rates. Principal amounts are not exchanged.

Interest rate futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price established on an organized exchange. Since futures contracts are collateralized by cash or marketable securities and changes in the futures contract value are settled daily with the exchange, the credit risk is negligible.

Forward rate agreements are effectively tailor-made interest rate futures, negotiated between two counterparties, which call for a cash settlement at a future date for the difference between a contractual rate of interest and the current market rate, based on a notional principal amount.

Interest rate options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) at or by a set date, a specific amount of a financial instrument at a predetermined price. In consideration for the assumption of interest rate risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the bank and a customer. The credit risk associated with exchange-traded options is negligible. Caps and floors are option-like agreements where the seller agrees to pay the purchaser, based on a notional principal amount, the agreed upon differential if the market reference rate is above (below) the cap (floor) rate. Similar to an option, the seller of a cap or floor receives a premium and bears the risk of unfavourable interest rate changes. A collar is an agreement between the bank and a customer in which the purchaser of a cap simultaneously sells a floor at different strike prices but for the same maturity date. Collars minimize the option premium and minimize the upside potential from declining rates. Swaptions are options to enter into a new swap or cancel an existing swap at a future date.

Foreign Exchange Contracts include spot and forward contracts, foreign currency futures, foreign currency options, cross currency interest rate swaps and currency swaps.

Foreign exchange forward contracts represent commitments to exchange two currencies at a specified future date based on a rate agreed to by both parties at the inception of the contract. Foreign exchange spot contracts are similar to forward contracts except that delivery is within two business days of the contract date. The bank enters into these contracts to service the needs of customers, as a market maker in foreign exchange and to manage its own asset/liability exposures.

Foreign currency futures are contractual obligations to buy or sell a foreign currency on a future date at a specified price established on an organized exchange. Similar to interest rate futures, they are subject to daily settlement for any change in market value.

Foreign currency options, which can be exchange-traded or entered into directly by the bank and a customer, are similar to interest rate option contracts, except that they are based on currencies.

Cross currency interest rate swaps are transactions in which two parties exchange currencies and interest rates on a specified notional principal amount for a predetermined period. The notional amount is generally exchanged at inception and re-exchanged at maturity. Currency swaps are transactions in which fixed or floating interest payments in one currency are made against receipt of fixed or floating interest payments in another.

Equity and Commodity Contracts include stock index option and future contracts, equity options and swaps, and commodity products. Stock index instruments are contracts to pay or receive cash flows based on the increase or decrease in the underlying index. Commodity products include precious metal options, warrants, forwards, and futures. These instruments are similar to interest rate contracts except that they are based on commodity prices.

16. COMMITMENTS AND CONTINGENT LIABILITIES

Lease commitments

The bank leases many properties under standard real estate leases which include renewal options and escalation clauses. Minimum future rental commitments for buildings under long-term non-cancellable leases for the next five years are shown below. Annual rental commitments after 1999 are in decreasing amounts.

1995	$183
1996	151
1997	143
1998	124
1999	112

Building rent expense, net of property rental income and restructuring expenses, included in the Statement of Income for the year ended October 31, 1994 was $182 million (1993 – $163 million; 1992 – $155 million).

Litigation

Various legal proceedings are pending which challenge certain practices or actions of the bank and its subsidiaries. Many of these proceedings are loan-related and are in reaction to steps taken by the bank and its subsidiaries to collect delinquent loans and enforce rights in collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

5-YEAR ANALYSIS OF NET INTEREST INCOME ON AVERAGE ASSETS AND LIABILITIES

For the year ended October 31 ($ millions, taxable equivalent basis)	*1994* Average balances	Interest	Average rate	*1993* Average balances	Interest	Average rate
ASSETS						
Earning assets						
Deposits with other banks	$ 11,599	$ 479	4.13%	$ 8,440	$ 321	3.80%
Securities						
Tax exempt	1,180	115	9.75	1,576	145	9.20
Other securities	23,761	1,060	4.46	16,655	743	4.46
Net gains on securities	–	178	–	–	347	–
	24,941	1,353	5.42	18,231	1,235	6.77
Loans						
Domestic						
Residential mortgages	43,358	3,654	8.43	33,821	3,078	9.10
Consumer instalment, credit card and other personal loans	18,715	1,734	9.27	17,041	1,608	9.44
Business and government loans	37,412	2,353	6.29	36,076	2,214	6.14
	99,485	7,741	7.78	86,938	6,900	7.94
International						
Residential mortgages	573	49	8.55	508	47	9.25
Consumer instalment and other personal loans	157	14	8.92	70	8	11.43
Business and government loans	16,509	1,150	6.97	16,294	1,220	7.49
	17,239	1,213	7.04	16,872	1,275	7.56
Total loans	116,724	8,954	7.67	103,810	8,175	7.87
Total earning assets	153,264	10,786	7.04	130,481	9,731	7.46
Customers' liability under acceptances	6,069	–	–	5,629	–	–
Other assets	7,367	–	–	6,390	–	–
Total assets	$166,700	$10,786	6.47%	$142,500	$9,731	6.83%
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities						
Deposits						
Domestic						
Consumers	$ 76,696	$ 3,372	4.40%	$ 65,577	$2,967	4.52%
Businesses and governments	24,196	840	3.47	21,157	758	3.58
Banks	850	45	5.29	535	12	2.24
	101,742	4,257	4.18	87,269	3,737	4.28
International						
Consumers	5,941	188	3.16	3,891	156	4.01
Businesses and governments	12,914	510	3.95	11,857	476	4.01
Banks	12,953	566	4.37	11,818	554	4.69
	31,808	1,264	3.97	27,566	1,186	4.30
Total deposits	133,550	5,521	4.13	114,835	4,923	4.29
Liabilities of subsidiaries other than deposits	5,190	280	5.39	2,466	109	4.42
Subordinated debentures	3,507	268	7.64	3,205	245	7.64
Total interest-bearing liabilities	142,247	6,069	4.27	120,506	5,277	4.38
Acceptances	6,069	–	–	5,629	–	–
Other liabilities	10,192	–	–	8,249	–	–
Shareholders' equity						
Preferred	2,240	–	–	2,064	–	–
Common	5,952	–	–	6,052	–	–
Total liabilities and shareholders' equity	$166,700	$ 6,069	3.64%	$142,500	$5,277	3.70%
Total assets/net interest income	$166,700	$ 4,717	2.83%	$142,500	$4,454	3.13%
Consisting of:						
Domestic	$134,100	$ 3,980	2.97%	$112,800	$3,647	3.23%
International	32,600	737	2.26	29,700	807	2.72
Total	$166,700	$ 4,717	2.83%	$142,500	$4,454	3.13%

1992			1991			1990		
Average balances	*Interest*	*Average rate*	*Average balances*	*Interest*	*Average rate*	*Average balances*	*Interest*	*Average rate*
$ 7,712	$ 421	5.46%	$ 7,625	$ 613	8.04%	$ 6,888	$ 666	9.67%
1,612	157	9.74	1,590	171	10.75	1,338	183	13.68
13,338	620	4.65	9,457	635	6.71	8,648	856	9.90
–	157	–	–	121	–	–	73	–
14,950	934	6.25	11,047	927	8.39	9,986	1,112	11.14
30,342	3,094	10.20	26,708	3,073	11.51	23,740	2,728	11.49
17,221	1,763	10.24	16,879	2,174	12.88	16,389	2,476	15.11
36,717	2,722	7.41	36,978	3,741	10.12	32,702	4,196	12.83
84,280	7,579	8.99	80,565	8,988	11.16	72,831	9,400	12.91
589	66	11.21	636	78	12.26	787	109	13.85
356	42	11.80	206	28	13.59	232	33	14.22
15,469	1,281	8.28	14,709	1,643	11.17	14,125	1,746	12.36
16,414	1,389	8.46	15,551	1,749	11.25	15,144	1,888	12.47
100,694	8,968	8.91	96,116	10,737	11.17	87,975	11,288	12.83
123,356	10,323	8.37	114,788	12,277	10.70	104,849	13,066	12.46
6,774	–	–	9,115	–	–	10,439	–	–
6,070	–	–	6,197	–	–	6,412	–	–
$136,200	$10,323	7.58%	$130,100	$12,277	9.44%	$121,700	$13,066	10.74%

$ 61,257	$ 3,413	5.57%	$ 58,217	$ 4,709	8.09%	$ 53,112	$ 5,204	9.80%
19,256	844	4.38	17,243	1,152	6.68	16,822	1,322	7.86
344	14	4.07	202	19	9.41	616	52	8.44
80,857	4,271	5.28	75,662	5,880	7.77	70,550	6,578	9.32
4,360	218	5.00	4,154	297	7.15	4,049	350	8.64
11,421	647	5.67	12,035	857	7.12	10,888	1,123	10.31
11,971	696	5.81	10,996	890	8.09	10,271	1,041	10.14
27,752	1,561	5.62	27,185	2,044	7.52	25,208	2,514	9.97
108,609	5,832	5.37	102,847	7,924	7.70	95,758	9,092	9.49
1,255	79	6.29	985	59	5.99	799	68	8.51
3,102	257	8.28	2,809	271	9.65	2,123	220	10.36
112,966	6,168	5.46	106,641	8,254	7.74	98,680	9,380	9.51
6,774	–	–	9,115	–	–	10,439	–	–
8,522	–	–	7,431	–	–	6,492	–	–
1,625	–	–	1,220	–	–	1,124	–	–
6,313	–	–	5,693	–	–	4,965	–	–
$136,200	$ 6,168	4.53%	$130,100	$ 8,254	6.35%	$121,700	$ 9,380	7.71%
$136,200	$ 4,155	3.05%	$130,100	$ 4,023	3.09%	$121,700	$ 3,686	3.03%
$108,500	$ 3,518	3.24%	$102,800	$ 3,325	3.23%	$ 96,200	$ 3,148	3.27%
27,700	637	2.30	27,300	698	2.55	25,500	538	2.11
$136,200	$ 4,155	3.05%	$130,100	$ 4,023	3.09%	$121,700	$ 3,686	3.03%

CONSOLIDATED BALANCE SHEET

As at October 31 ($ millions)	*1994*	*1993*	*1992*	*1991*	*1990*	*1989*	*1988*	*1987*	*1986*	*1985*
Assets										
Cash resources	$ 16,449	$ 10,874	$ 10,938	$ 8,820	$ 8,763	$ 8,187	$ 10,093	$ 13,810	$14,908	$14,992
Securities	27,695	24,011	16,146	13,436	9,449	7,989	8,872	8,586	10,244	10,490
Loans										
Residential mortgages	44,086	43,738	32,607	29,103	25,733	22,530	19,502	16,184	12,510	9,939
Consumer instalment, credit card and other personal loans	19,758	19,508	17,928	17,290	16,826	15,612	14,187	11,744	10,120	9,245
Business and government loans	51,542	53,223	49,602	51,951	50,135	45,097	44,092	41,365	43,304	44,647
	115,386	116,469	100,137	98,344	92,694	83,239	77,781	69,293	65,934	63,831
Customers' liability under acceptances	6,205	6,302	5,737	7,210	10,369	10,701	9,539	7,226	5,438	4,137
Premises and equipment	1,975	2,057	1,914	1,921	1,800	1,509	1,335	1,253	1,168	1,028
Other assets	5,369	5,228	3,421	2,621	2,863	3,035	2,434	2,002	1,915	1,539
	$173,079	$164,941	$138,293	$132,352	$125,938	$114,660	$110,054	$102,170	$99,607	$96,017
Liabilities and shareholders' equity										
Deposits										
Consumers	$ 85,214	$ 84,696	$ 67,648	$ 64,332	$ 60,577	$ 53,851	$ 46,701	$ 42,530	$41,031	$38,953
Businesses and governments	36,422	33,781	30,245	29,740	27,335	25,242	27,924	28,021	26,003	25,658
Banks	14,179	11,922	14,329	10,950	11,256	10,093	12,613	15,260	17,219	18,932
	135,815	130,399	112,222	105,022	99,168	89,186	87,238	85,811	84,253	83,543
Acceptances	6,205	6,302	5,737	7,210	10,369	10,701	9,539	7,226	5,438	4,137
Other liabilities	18,993	16,868	9,701	9,282	7,648	6,872	6,190	3,248	3,186	2,420
Subordinated debentures	3,477	3,442	3,127	3,076	2,299	2,118	2,000	1,521	2,068	1,749
	164,490	157,011	130,787	124,590	119,484	108,877	104,967	97,806	94,945	91,849
Shareholders' equity										
Capital stock										
Preferred	2,266	2,248	1,594	1,661	1,146	1,151	954	1,012	1,025	877
Common	2,910	2,910	2,910	2,726	2,450	2,309	1,961	1,545	1,193	962
Retained earnings	3,413	2,772	3,002	3,375	2,858	2,323	2,172	1,807	2,444	2,329
	8,589	7,930	7,506	7,762	6,454	5,783	5,087	4,364	4,662	4,168
	$173,079	$164,941	$138,293	$132,352	$125,938	$114,660	$110,054	$102,170	$99,607	$96,017

CONSOLIDATED STATEMENT OF INCOME

For the year ended October 31 ($ millions)	*1994*	*1993*	*1992*	*1991*	*1990*	*1989*	*1988*	*1987*	*1986*	*1985*
Interest income										
Loans	$8,954	$8,175	$8,968	$10,737	$11,287	$10,047	$7,915	$6,769	$7,061	$7,124
Securities	1,304	1,174	869	854	1,021	971	706	785	856	771
Deposits with banks	479	321	421	613	666	676	704	881	1,094	1,371
	10,737	9,670	10,258	12,204	12,974	11,694	9,325	8,435	9,011	9,266
Interest expense										
Deposits	5,521	4,923	5,832	7,924	9,092	7,772	5,871	5,304	5,976	6,564
Subordinated debentures	268	245	257	271	220	206	142	136	172	147
Other	280	109	79	59	68	91	31	42	38	39
	6,069	5,277	6,168	8,254	9,380	8,069	6,044	5,482	6,186	6,750
Net interest income	4,668	4,393	4,090	3,950	3,594	3,625	3,281	2,953	2,825	2,516
Provision for credit losses	820	1,750	2,050	605	420	1,380	750	900	975	685
	3,848	2,643	2,040	3,345	3,174	2,245	2,531	2,053	1,850	1,831
Other income	2,697	2,097	1,941	1,750	1,655	1,538	1,270	1,062	831	743
	6,545	4,740	3,981	5,095	4,829	3,783	3,801	3,115	2,681	2,574
Non-interest expenses										
Human resources	2,675	2,310	2,160	2,072	1,889	1,706	1,467	1,327	1,254	1,180
Occupancy	478	418	400	364	307	276	259	227	209	186
Equipment	460	396	377	335	287	238	204	181	168	140
Communications	469	392	387	378	367	324	268	228	213	192
Restructuring	–	410	130	–	–	–	–	–	–	–
Other	602	490	464	452	450	391	352	364	328	250
	4,684	4,416	3,918	3,601	3,300	2,935	2,550	2,327	2,172	1,948
Net income before income taxes	1,861	324	63	1,494	1,529	848	1,251	788	509	626
Income taxes	655	(5)	(65)	495	555	305	530	273	54	170
Net income before non-controlling interest	1,206	329	128	999	974	543	721	515	455	456
Non-controlling interest in net income of subsidiaries	37	29	21	16	9	14	9	3	3	2
Net income before special provision for losses	1,169	300	107	983	965	529	712	512	452	454
Special provision for losses	–	–	–	–	–	–	–	(800)	–	–
Net income (loss)	$1,169	$ 300	$ 107	$ 983	$ 965	$ 529	$ 712	$ (288)	$ 452	$ 454

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended October 31 ($ millions)	*1994*	*1993*	*1992*	*1991*	*1990*	*1989*	*1988*	*1987*	*1986*	*1985*
Capital stock										
Balance at beginning of year	$5,158	$4,504	$4,387	$3,596	$3,460	$2,915	$2,557	$2,218	$1,839	$1,646
Issue of preferred shares	–	612	–	526	–	400	–	–	150	–
Issue of common shares	–	–	184	276	141	348	416	352	231	192
Preferred shares converted	–	–	–	–	–	(187)	(44)	–	–	–
Preferred shares redeemed and purchased for cancellation	–	–	(102)	(5)	(4)	(11)	(5)	(5)	(4)	(4)
Translation adjustment	18	42	35	(6)	(1)	(5)	(9)	(8)	2	5
Balance at end of year	$5,176	$5,158	$4,504	$4,387	$3,596	$3,460	$2,915	$2,557	$2,218	$1,839
Retained earnings										
Balance at beginning of year	$2,772	$3,002	$3,375	$2,858	$2,323	$2,172	$1,807	$2,444	$2,329	$2,095
Net income (loss)	1,169	300	107	983	965	529	712	(288)	452	454
Dividends – preferred	(168)	(154)	(123)	(103)	(96)	(65)	(80)	(79)	(76)	(72)
– common	(364)	(364)	(361)	(352)	(337)	(313)	(266)	(236)	(205)	(196)
Income taxes	–	–	–	–	–	–	–	(29)	(35)	52
Expense of share issues	–	(11)	–	(8)	–	(6)	–	–	(3)	–
Unrealized foreign currency translation gains and losses	4	(1)	4	(3)	3	6	(1)	(5)	(18)	(4)
Balance at end of year	$3,413	$2,772	$3,002	$3,375	$2,858	$2,323	$2,172	$1,807	$2,444	$2,329
Shareholders' equity at end of year	$8,589	$7,930	$7,506	$7,762	$6,454	$5,783	$5,087	$4,364	$4,662	$4,168

QUARTERLY HIGHLIGHTS OF EARNINGS

(As a percentage of average assets, taxable equivalent basis)	*1994*				*1993*			
	Q4	*Q3*	*Q2*	*Q1*	*Q4*	*Q3*	*Q2*	*Q1*
Net interest income	2.87%	2.78%	2.78%	2.88%	3.08%	3.01%	3.09%	3.33%
Provision for credit losses	(.48)	(.49)	(.50)	(.50)	(2.68)	(.74)	(.52)	(.85)
	2.39	2.29	2.28	2.38	.40	2.27	2.57	2.48
Other income	1.57	1.56	1.66	1.68	1.50	1.52	1.51	1.36
	3.96	3.85	3.94	4.06	1.90	3.79	4.08	3.84
Non-interest expenses	(2.80)	(2.76)	(2.81)	(2.85)	(3.94)	(2.80)	(2.88)	(2.70)
	1.16	1.09	1.13	1.21	(2.04)	.99	1.20	1.14
Income taxes	(.43)	(.37)	(.42)	(.47)	.95	(.34)	(.46)	(.40)
Non-controlling interest in net income of subsidiaries	(.02)	(.02)	(.04)	(.02)	(.02)	(.03)	(.02)	(.01)
Return on assets	.71%	.70%	.67%	.72%	(1.11)%	.62%	.72%	.73%
Return on assets after preferred dividends	.61%	.60%	.57%	.62%	(1.22)%	.51%	.59%	.64%
Net interest income *($ millions)*	$1,222	$1,171	$1,130	$1,194	$1,169	$1,081	$1,050	$1,154
Net income (loss) *($ millions)*	$ 302	$ 294	$ 273	$ 300	$ (420)	$ 223	$ 243	$ 254
Average assets *($ billions)*	$168.7	$167.1	$166.7	$164.6	$150.5	$142.6	$139.3	$137.4
Earnings (loss) per common share	$ 0.83	$ 0.80	$ 0.74	$ 0.82	$ (1.47)	$ 0.58	$ 0.64	$ 0.71
Dividends per common share	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29	$ 0.29

	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985
Revenue and expenses as a percentage of average assets *(taxable equivalent basis)*										
Average assets *($ millions)*	$166,700	$142,500	$136,200	$130,100	$121,700	$112,700	$104,300	$100,400	$97,700	$92,300
Net interest income (1)	2.83%	3.13%	3.05%	3.09%	3.03%	3.30%	3.22%	3.09%	3.07%	2.92%
Provision for credit losses	(.49)	(1.23)	(1.51)	(.47)	(.35)	(1.22)	(.72)	(.90)	(1.00)	(.74)
	2.34	1.90	1.54	2.62	2.68	2.08	2.50	2.19	2.07	2.18
Other income	1.62	1.47	1.43	1.35	1.36	1.36	1.22	1.06	.85	.80
	3.96	3.37	2.97	3.97	4.04	3.44	3.72	3.25	2.92	2.98
Non-interest expenses	(2.81)	(3.10)	(2.88)	(2.77)	(2.71)	(2.61)	(2.44)	(2.32)	(2.22)	(2.11)
	1.15	.27	.09	1.20	1.33	.83	1.28	.93	.70	.87
Income taxes (1)	(.43)	(.04)	–	(.44)	(.53)	(.35)	(.59)	(.42)	(.23)	(.37)
Non-controlling interest in net income of subsidiaries	(.02)	(.02)	(.01)	–	(.01)	(.01)	(.01)	–	(.01)	(.01)
Return on assets	.70%	.21%	.08%	.76%	.79%	.47%	.68%	.51%	.46%	.49%
Return on assets after preferred dividends	.60%	.10%	(.01)%	.68%	.71%	.41%	.61%	.43%	.38%	.41%
Common share information (2)										
Shares outstanding *(thousands)* (3)	314,155	314,155	314,155	306,460	293,267	286,674	265,300	236,010	213,044	198,854
Earnings (loss) per share (4)	$3.19	$0.46	$(0.05)	$2.92	$3.00	$1.64	$2.52	$1.89	$1.84	$1.96
Dividends per share	$1.16	$1.16	$1.16	$1.16	$1.16	$1.10	$1.04	$1.01	$1.00	$1.00
Common share price (5) High	$31.88	$28.88	$29.00	$27.50	$25.69	$24.38	$18.25	$19.44	$17.63	$16.19
Low	$25.13	$22.00	$21.50	$20.50	$19.75	$16.88	$13.06	$12.81	$13.75	$13.75
Close	$28.38	$27.25	$24.13	$27.00	$20.75	$24.25	$18.00	$13.88	$16.63	$15.75
Book value (6)	$20.13	$18.09	$18.82	$19.91	$18.10	$16.16	$15.58	$14.20	$17.07	$16.55
Price/earnings multiple (7)	8.9	–	–	8.2	7.6	12.5	6.2	8.5	8.5	7.6
Dividend yield (8)	4.1%	4.6%	4.6%	4.8%	5.1%	5.3%	6.6%	6.3%	6.4%	6.7%
Dividend payout ratio (9)	36.4%	–	–	40.0%	38.8%	67.4%	42.1%	54.5%	54.5%	51.3%
Return on equity (10)	16.8%	2.4%	(0.3)%	15.5%	17.5%	10.1%	17.2%	11.5%	10.9%	12.4%
Capital ratios *($ millions)* (11)										
Tier 1 capital	$ 7,660	$ 6,910	$ 6,740	$ 6,938	$5,712	$5,096	$4,232			
Tier 2 capital	3,865	4,031	3,743	3,748	2,813	2,538	2,383			
Total capital	$11,525	$10,941	$10,483	$10,686	$8,525	$7,634	$6,615			
Total risk-adjusted assets	$120,158	$117,043	$114,298	$113,975	$115,035	$106,218	$99,801			
Tier 1 capital to risk-adjusted assets	6.4%	5.9%	5.9%	6.1%	5.0%	4.8%	4.2%			
Tier 2 capital to risk-adjusted assets	3.2	3.4	3.3	3.3	2.4	2.4	2.4			
Total capital to risk-adjusted assets	9.6%	9.3%	9.2%	9.4%	7.4%	7.2%	6.6%			
Other information										
Number of employees (12)	49,208	52,745	49,628	50,547	50,106	47,989	46,096	42,839	43,229	41,951
Automated banking machines	3,948	3,981	3,828	3,651	3,142	2,334	1,632	1,337	1,170	898
Service delivery units										
Domestic	1,596	1,731	1,661	1,645	1,617	1,560	1,513	1,467	1,442	1,439
International (13)	97	95	83	102	48	47	47	50	54	55
Total	1,693	1,826	1,744	1,747	1,665	1,607	1,560	1,517	1,496	1,494

Notes

(1) Net interest income and income taxes are presented on a taxable equivalent basis.

(2) Common shares were split on a 2 for 1 basis in February 1990 and all related data has been restated accordingly.

(3) At October 31.

(4) Income and earnings per share figures for 1987 are stated before the special provision for losses on country lending. Adjusting these figures for the special provision results in a loss of $1.60 per share.

(5) High and low price of common shares traded on the Toronto Stock Exchange during the year and the closing price on the last trading day of October.

(6) Common shareholders' equity divided by common shares outstanding at October 31.

(7) Average of high and low common share price divided by earnings per share. The multiples for 1993 and 1992 are not meaningful.

(8) Dividends per common share divided by the average of high and low share price.

(9) Common dividends as a percentage of net income after preferred dividends. The ratios for 1993 and 1992 are not meaningful.

(10) Net income after taxes less preferred share dividends, divided by average common shareholders' equity.

(11) Commencing October 31, 1988, the bank has calculated its capital ratios in accordance with the capital adequacy guideline of the Superintendent of Financial Institutions Canada.

(12) Full-time equivalent.

(13) International service delivery units since 1991 include (in addition to branches) representative offices, agencies and subsidiaries.

Name	*Principal office address**	*Carrying value of voting shares owned by the bank***	*Percentage of voting shares owned by the bank*
Royal Bank Mortgage Corporation***	Montreal, Canada	$ 815	100%
Royal Trust Corporation of Canada***	Toronto, Canada	766	100
The Royal Trust Company	Montreal, Canada	149	100
RBC Insurance Holdings Inc.	Brampton, Canada	32	100
Voyageur Insurance Company	Brampton, Canada		100
Royal Bank Export Finance Co. Ltd.	Toronto, Canada	5	100
Royal Bank Capital Corporation	Toronto, Canada	21	100
UB&S Holdings Limited	Toronto, Canada	18	100
Royal Bank Investment Management Inc.	Toronto, Canada		100
RT Capital Management Inc.***	Toronto, Canada	1	100
Royal Mutual Funds Inc.	Toronto, Canada	2	100
Royal Bank Investor Trading Inc.	Richmond Hill, Canada	–	100
Royal Bank Holding Inc.	Toronto, Canada	6,858	100
RBC Dominion Securities Limited	Toronto, Canada		73
RBC Dominion Securities Inc.	Toronto, Canada		73
RBC Dominion Securities Corporation	New York, U.S.A.		73
DS Marcil Partnership	Toronto, Canada		51
Royal Bank Realty Holdings (RBLI) Inc.	Montreal, Canada		100
Royal Bank Realty Inc.	Montreal, Canada		100
R.B.C. Holdings (Bahamas) Limited	Nassau, Bahamas		100
Royal Bank of Canada Trust Company (Bahamas) Limited	Nassau, Bahamas		100
Multinational Services (Cayman) Limited***	George Town, Grand Cayman		100
Finance Corporation of Bahamas Limited	Nassau, Bahamas		75
Royal Bank of Canada (Asia) Limited	Singapore		100
Investment Holdings (Cayman) Limited	George Town, Grand Cayman		100
Royal Bank of Canada (Barbados) Limited	Bridgetown, Barbados		100
Royal Bank of Canada Reinsurance (Cayman) Limited	George Town, Grand Cayman	243	100
Royal Bank of Canada Insurance Company Ltd.	Bridgetown, Barbados		100
RBC Holdings (USA) Inc.	New York, U.S.A.	252	100
Royal Bank of Canada Financial Corporation	Bridgetown, Barbados	3	100
Atlantis Holdings Limited	Bridgetown, Barbados	306	100
RBC Finance B.V.	Amsterdam, Netherlands	801	100
Royal Bank of Canada S.A.	Paris, France		100
Royal Bank of Canada (Suisse)	Geneva, Switzerland		100
Royal Bank of Canada AG	Frankfurt, Germany		100
RBC Holdings (Guernsey) Limited	Guernsey, Channel Islands		100
Royal Bank of Canada (Channel Islands) Limited	Guernsey, Channel Islands		100
Royal Bank of Canada (Jersey) Limited	Jersey, Channel Islands		100
Royal Bank of Canada Holdings (U.K.) Limited	London, England		100
Chancellor Investments Limited	London, England		100
Royal Bank of Canada Europe Limited	London, England		100
Royal Bank of Canada (IOM) Limited	Isle of Man		100
RBC Investment Management (Asia) Limited	Hong Kong	29	100
Royal Trust Bank (Asia) Limited***	Singapore	–	100

**The subsidiaries are incorporated under the laws of the country in which the principal office is situated, except for UB&S Holdings Limited incorporated under the laws of Ontario, and RBC Holdings (USA) Inc. incorporated under the laws of Delaware.*

***The carrying value (in millions of dollars) of voting shares is stated at the bank's equity in such investments.*

****The above-mentioned five subsidiaries have outstanding non-voting shares of which the bank, directly or indirectly, owns 100%.*

Allowance for Credit Losses

The amount deemed adequate by management to absorb anticipated credit-related losses in the portfolio of loans, acceptances, guarantees, letters of credit and deposits with other banks and derivatives. The allowance is increased by specific provisions, the country risk provision and general provisions. It is reduced by write-offs net of recoveries and by losses realized on sales and exchanges of LDC loans.

Assets under Administration

Assets administered by a financial institution which are beneficially owned by clients and are therefore not reported on the balance sheet of the financial institution. Services provided in respect of these assets are of an administrative nature, such as safekeeping of securities, collection of investment income, settlement of purchase and sale transactions and record-keeping.

Assets under Management

Assets managed by a financial institution which are beneficially owned by clients and are therefore not reported on the balance sheet of the financial institution. Services provided in respect of these assets include the selection of investments and the provision of investment advice. Assets under management may also be administered by the financial institution.

Bankers' Acceptance

A bill of exchange or negotiable instrument drawn by the borrower for payment at maturity and accepted by a bank. The acceptance constitutes a guarantee of payment by the bank and can be traded in the money market. The bank earns a "stamping fee" for providing this guarantee.

Basis Point

One one-hundredth of a percentage point.

Brady Bonds

Securities issued under the terms of the so-called "Brady Plan", named after former U.S. Treasury Secretary Nicholas Brady. Brady bonds, which may be secured in whole or in part by U.S. Treasury bonds, are issued by less developed countries in exchange for loans payable to commercial banks.

Capital Ratios

The percentage of risk-adjusted assets supported by capital, as defined by the Office of the Superintendent of Financial Institutions under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS). Tier 1 capital consists of common shareholders' equity, non-cumulative preferred shares and non-controlling interest in subsidiaries less goodwill. Tier 2 capital consists of other preferred shares and subordinated debentures at amortized values less investments in associated corporations. Total regulatory capital is the sum of Tier 1 and Tier 2 capital.

Commitments to Extend Credit

Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing, or through off-balance sheet products such as guarantees and letters of credit.

Currency and Interest Rate Swaps

A type of derivative which obliges two parties to exchange currencies and/or the related interest flows (e.g. fixed rate for floating rate) on a specified notional principal for a specified period.

Derivatives

A derivative is a contract whose value is "derived" from interest rates, foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification, or reduction of current or expected risks, including interest rate, foreign exchange and other market risks. The most common types of derivatives include interest rate and currency swaps, foreign exchange forward contracts, foreign currency and interest rate futures, forward rate agreements and foreign currency and interest rate options. Derivatives can be transacted either through organized exchanges or over-the-counter agreements.

Documentary and Commercial Letters of Credit

Written undertakings by a bank on behalf of its customer (typically an importer), authorizing a third party (e.g. an exporter) to draw drafts on the bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Earnings per Share (EPS)

EPS is net income, less preferred share dividends, divided by the average number of common shares outstanding for the period.

Foreign Currency and Interest Rate Futures

A type of derivative which creates an obligation to buy or sell a foreign currency or a financial instrument on a future date at a specified price established on a commodity exchange.

Foreign Currency and Interest Rate Options

A type of derivative in which the writer grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) at or by a set date, a set amount of foreign currency or a financial instrument at a set price.

Foreign Currency Translation Gain/Loss

The unrealized gain or loss recorded when assets or liabilities denominated in foreign currencies are translated into Canadian dollars on the balance sheet date at prevailing rates which differ from those rates in force at inception or on the previous balance sheet date.

Foreign Exchange Spot and Forward Contracts

A Foreign Exchange Forward Contract, which is a type of derivative, is a commitment to buy or sell a fixed amount of foreign currency on a future specified date at a set rate of exchange. A Foreign Exchange Spot Contract is a commitment to buy or sell a fixed amount of foreign currency for delivery within two business days of the contract date.

Forward Rate Agreement (fra)

A type of derivative which obliges two parties to make a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount. When used as a hedge, an FRA protects against future movements in market interest rates.

Guarantees and Standby Letters of Credit

Primarily represent irrevocable assurances that a bank will make payments in the event that its customer cannot meet its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

Hedge

A risk management technique to insulate financial results from market, interest rate, or foreign currency exchange risk (exposure) arising from normal banking operations. The elimination or reduction of such exposures is accomplished by establishing offsetting positions. For example, assets denominated in foreign currencies can be offset with liabilities in the same currencies or through the use of foreign exchange hedging instruments such as futures, options, or foreign exchange contracts.

Less Developed Country (ldc)

A country whose economy is generally less developed than an industrialized country. The Superintendent of Financial Institutions Canada requires that a minimum 35% provision for loan loss be maintained in respect of the aggregate exposures to 52 such countries that have restructured or experienced difficulties in servicing all or part of their external debt to commercial banks.

Liquidity or Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks and securities.

London Inter-Bank Offered Rate (libor), Bid Rate (libid) and Mean Rate (limean)

The interest rates at which banks offer to lend funds (LIBOR) and purchase funds (LIBID) in the international inter-bank market. The average of the LIBOR and LIBID is referred to as the LIMEAN.

Mark-to-Market

Valuation at market rates, as of the balance sheet date, of securities purchased for trading purposes and derivatives.

Mismatches

A mismatch arises when the average remaining maturity of assets in a portfolio differs from that of liabilities. Interest rate exposure results, since a change in interest rates affects asset yields and liability costs at different times. Also referred to as gap positions or interest rate sensitivity gaps.

Net Interest Income

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits and subordinated debentures. Called Net Interest Margin when expressed as a percentage of average total assets.

Non-Accrual Loan

A loan placed on a cash basis (i.e. interest income is only recognized when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectibility of principal or interest. Loans other than credit card balances are automatically placed on a cash basis when a payment is 90 days past due, unless the loan is well secured and in the process of collection. All loans are classified as non-accrual when a payment is 180 days in arrears.

Notional Principal

The contract amount used as a reference point to calculate payments for derivatives.

Off-Balance Sheet Financial Instruments

A variety of products offered to customers which fall into two broad categories: (i) credit-related arrangements which provide customers with liquidity protection, and (ii) derivatives which provide customers with protection against interest rate, foreign exchange and other market risks. A bank uses certain of these derivatives to manage its own exposures to such risks.

Provision for Credit Losses

A charge to income which is added to the allowance for credit losses. Specific provisions are established to reduce the book value of specific assets (primarily loans) to estimated realizable values. A country risk provision is established for possible losses on aggregate loans to a group of 52 less developed countries designated by the Superintendent of Financial Institutions Canada. General provisions are established for anticipated losses on aggregate exposures including those in particular industries or geographic regions (excluding LDCs) where credit losses cannot yet be determined on an individual facility basis.

Return on Assets (ROA)

Net income expressed as a percentage of average total assets. Used, along with ROE, as a measure of profitability and as a basis for intra-industry performance comparison.

Return on Equity (ROE)

Net income, less preferred share dividends, expressed as a percentage of average common shareholders' equity.

Revolving Underwriting Facilities (RUFs) and Note Issuance Facilities (NIFs)

Revolving Underwriting Facilities are arrangements whereby a customer issues short-term notes supported by an undertaking by a bank that if the customer is unable to issue the notes at a predetermined price, the bank will buy them at a prescribed price or guarantee the availability of funds by providing standby credit. Note Issuance Facilities are similar to RUFs except that the bank underwrites only on a "best efforts basis" with no undertaking to buy unsold notes or make funds available.

Risk

Banking involves a number of different risks. Credit risk refers to the possibility that counterparties to financial instruments transacted with a bank will be unable to discharge their obligations under the instruments and cause the bank to suffer a loss. Liquidity risk refers to potential demands on a bank for cash resulting from commitments to extend credit, deposit maturities and many other transactions. Market risk refers to possible losses resulting from price changes, such as a decrease in the value of a portfolio of common shares. Interest rate risk refers to possible losses resulting from changes in interest rates. Rising interest rates could, for example, increase funding costs and reduce the net interest income earned on a fixed yield mortgage portfolio. Foreign exchange risk refers to possible losses resulting from exchange rate movements. A foreign currency devaluation, for example, could result in losses on an overseas investment. Interest rate, foreign exchange and other market risks are hedged as far as is practical using a variety of financial instruments. Operational risk is the potential for loss caused by a breakdown in procedures in transaction processing, risk management and reporting.

Risk-Adjusted Assets

Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per dollar among all types of assets. The risk inherent in off-balance sheet instruments is also recognized, first by adjusting notional values to balance sheet (or credit) equivalents, and then by applying appropriate risk weighting factors.

Securities Lending

Transactions in which a bank acts as an agent for the owner of a security, who agrees to lend the security under the terms of a prearranged contract to a borrower for a fee. The borrower must fully collateralize the security loan at all times. There are two types of securities lending arrangements, lending with and without credit or market risk indemnification. In securities lending without indemnification, the bank bears no risk of loss. For transactions in which the bank provides an indemnification, risk of loss occurs if the borrower defaults and the value of the collateral declines concurrently.

Securitization

Traditional bank assets, such as loans and mortgages, may be sold to an entity which raises funds by issuing negotiable securities. The beneficial ownership of the assets is thereby shared among a large number of smaller investors. Transfers of assets in which the purchaser is entitled to receive payment from the seller in certain circumstances, such as failure to collect the assets in full, are referred to as sales with recourse.

Subordinated Debentures

Unsecured obligations of a bank which are subordinated in right of payment to the claims of depositors and certain other creditors. Convertible debentures can be exchanged for shares at the option of the holder, the issuer, or both.

Taxable Equivalent Adjustment

An addition to interest income in order to gross up the tax-exempt income earned on certain securities (primarily loan substitute securities) to an amount which, had it been taxable at the statutory rate, would result in the same after-tax net income as appears in the financial statements. The gross-up of such income to a taxable equivalent basis permits a uniform measurement and comparison of net interest income.

Corporate Headquarters

Street Address:	1 Place Ville Marie Montreal, Quebec, Canada
Telephone:	(514) 874-2110
Fax:	(514) 874-7197
Telex:	055-61086
Mailing Address:	Royal Bank of Canada P.O. Box 6001 Montreal, Quebec Canada, H3C 3A9

Stock Exchange Listings

(Symbol: RY)

Common shares listed on:

Canada: Montreal, Toronto, Vancouver, Winnipeg and Alberta Stock Exchanges

Switzerland: Basel, Geneva and Zurich Stock Exchanges

U.K.: London Stock Exchange

All Preferred shares, except Series C and D, are listed on the Toronto and Montreal Stock Exchanges. Preferred shares Series C and D are listed on the Alberta Stock Exchange.

Certain deposit notes and subordinated debentures are listed on the London and Luxembourg Stock Exchanges and are quoted on Reuters.

Usual Dividend Dates

	Record dates	Payment dates
Common shares and Preferred shares series B, C, D, H, I, J and K	Jan. 24 Apr. 24 Jul. 24 Oct. 24	Feb. 24 May 24 Aug. 24 Nov. 24
Preferred shares series F and G	Second week of Jan., Apr., Jul. and Oct.	Last trading day of Jan., Apr., Jul. and Oct.
Preferred shares series E	Last trading day of each month	12th day of the following month

Valuation Day Price

For capital gains purposes, the Valuation Day (December 22, 1971) cost base for the bank's common shares, adjusted for prior stock splits, is $7.38 per share.

Transfer Agent and Registrar

MAIN AGENT

Montreal Trust Company of Canada

Mailing Address:	P.O. Box 890, Station "B" Montreal, Quebec Canada, H3B 3K5
Street Address:	1800 McGill College Avenue Montreal, Quebec Canada, H3A 3K9
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CO-TRANSFER AGENTS (CANADA)

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Toronto, Ontario
151 Front Street W.
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Calgary, Alberta
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CO-TRANSFER AGENT (UNITED KINGDOM)

The Royal Bank of Scotland plc

Securities Services – Registrars
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Redcliffe Way, Bristol, England
BS99 7NH

Institutional Investor, Broker and Security Analyst Contact

Institutional investors, brokers and security analysts requiring financial information should contact the Manager, Investor and Shareholder Relations, by writing to the bank's corporate headquarters, or by calling (514) 874-5022 or by faxing (514) 874-7197.

Shareholder Contact

For change of address, dividend information and estate transfers, shareholders are requested to call the bank's transfer agent, Montreal Trust Company at (514) 982-7555, or to write to them at their mailing address.

Other shareholder inquiries may be directed to our Shareholder Relations Department, by writing to the bank's corporate headquarters or by calling (514) 874-5012.

Shareholders may have their dividends deposited directly to a bank account at any financial institution that is a member of the Canadian Payments Association. To arrange for this, please write to Montreal Trust Company of Canada at their mailing address.

Duplicate Annual Reports

Some registered holders of shares of the bank might receive more than one copy of shareholder information mailings such as this Annual Report. While every effort is made to avoid duplication, if securities of the same class or series are registered in different names or addresses, multiple copies are forwarded. Shareholders receiving more than one copy are requested to write to our Shareholder Relations Department, at the bank's corporate headquarters, so that arrangements may be made to avoid duplicate mailings.

Annual Meeting

Shareholders are invited to attend Royal Bank of Canada's Annual Meeting of common shareholders to be held at 10:30 a.m. on January 26, 1995 at the Sheraton Centre Hotel, Toronto, Ontario.

Information concerning Royal Bank and its activities in Canada and abroad may be obtained from the Public Affairs Department, at the bank's corporate headquarters.

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